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The Magazine for Indiana Entrepreneurs and High-Growth Companies

INBiz

Scott Molander
Co-Founder, Hat World

Sally Byrn
Co-Founder, SSCI

Toby Buck
Chairman & CEO, Paragon Medical

What Do These People Know That You Don't?

The **INBiz** Initiative

Idea to Enterprise: Getting Technologies to Market

Venture Capital: What is it? How to Get It?

Creating ***High-Performance*** Employees

Managing **1-2-3**

INDIANA
Accelerate Your Business

A publication of the **Indiana Economic Development Corporation**


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President and CEO
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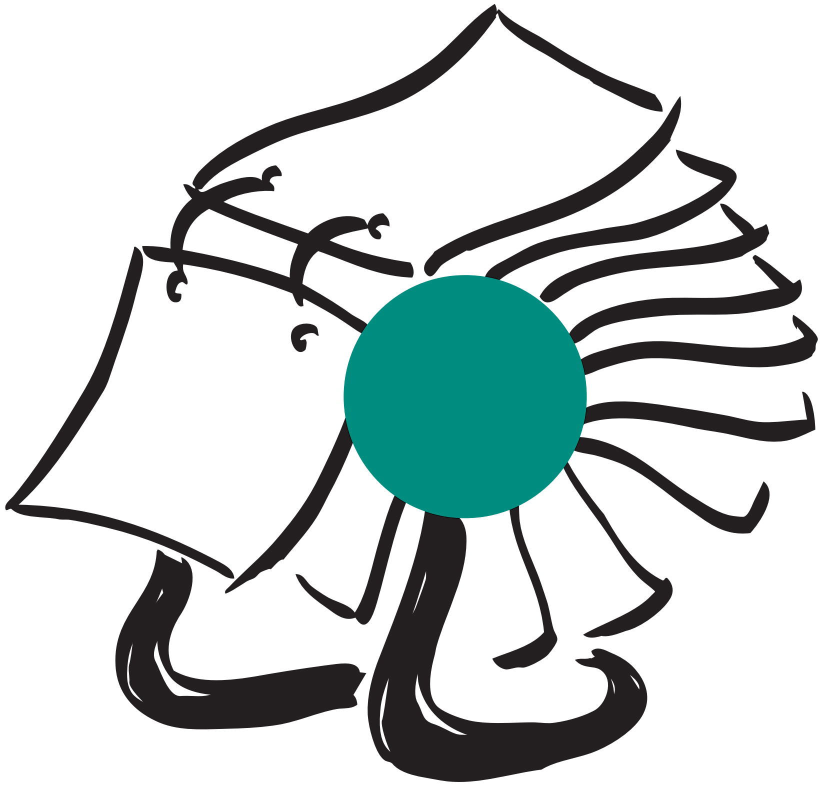

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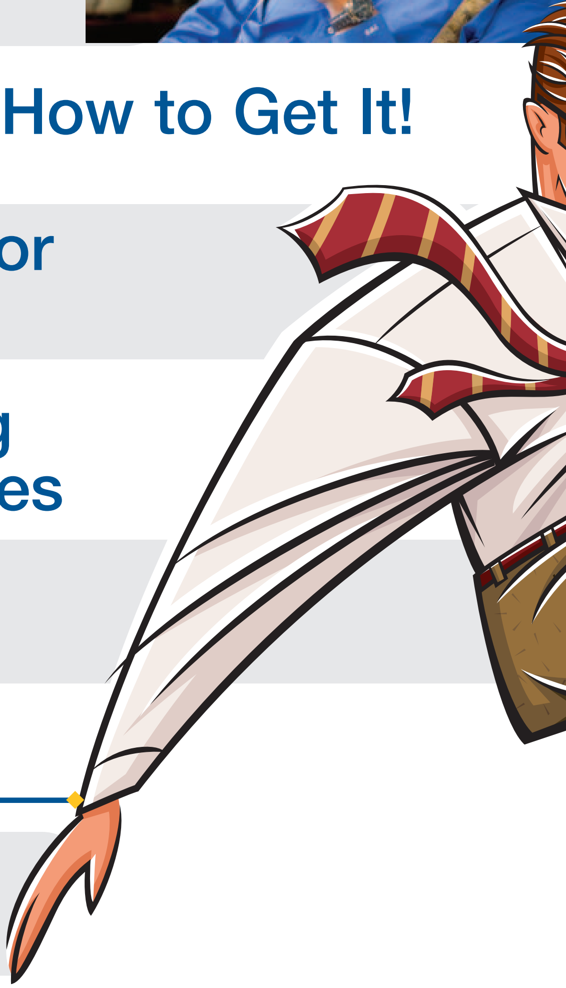

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The Entrepreneurial State

Indiana has a rich history of entrepreneurship and innovation. From Colonel Eli Lilly, who created one of the world's great pharmaceutical companies, to Elwood Haynes, whose backyard tinkering produced the "horseless carriage," the thermostat and stainless steel, to Madame C.J. Walker, who became America's first African-American female millionaire, Indiana has been home to countless entrepreneurial leaders.

Indiana's current generation of entrepreneurs is moving Indiana's economy forward, ensuring that Indiana remains on the leading edge of innovation. Wil Davis of Ontario Systems, Albert Chen of Telamon, Scott Dorsey of Exact Target, Scott Jones of Cha-Cha, Don Brown of Interactive Intelligence, Dave Becker of First Internet Bank of Indiana, Ron Brumbarger of Bitwise Solutions and Scott Webber of Autobase are leading the way in the information technology sector.

Bill Cook of Cook Inc., Dane Miller of Biomet, Ron Ellis of EndoCyte, Jim Pearson of Suros Surgical, Toby Buck of Paragon Medical and Richard DiMarchi of Marcadia have created high-growth life science companies.

Pat Miller of Vera Bradley, Keith Busse of Steel Dynamics, Bob Laikin of Brightpoint, Bill Mays of Mays Chemical, Dick Johnson of Johnson Oil, Jeff Smulyan of Emmis Communications, Cathy Langham of Langham Logistics, and Mickey Maurer of the National Bank of Indianapolis have created companies in diverse industries that now collectively employ thousands of Hoosiers.

These business leaders and hundreds of others across our state are creating innovative companies that are the lifeblood of our economy. We are working every day to create the best possible environment for business growth in our state, and we are taking actions to ensure entrepreneurs have the resources needed to take their ideas and translate them into growing companies.

To ensure that the most innovative technologies that are developed at our universities and companies stay and grow into companies in Indiana, the 21st Century Research and Technology Fund is investing in market-changing technologies that have the potential to create the jobs of the future. In 2006, the 21st Century Fund made 30 awards totaling more than $33.5 million to Indiana ventures that are actively developing and commercializing innovative new products.

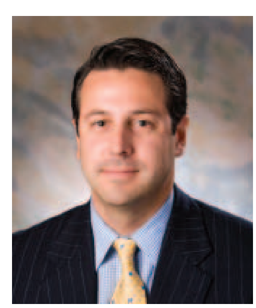
We have placed a renewed emphasis on helping emerging growth companies capitalize on federal-funding opportunities through the Federal Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs. Grants from these programs can provide the means to transform market-changing ideas or technologies into commercial ventures, eventually leading to new companies and jobs in Indiana.

Our new INBiz Initiative will build a statewide entrepreneur resource system utilizing the Small Business Development Center (SBDC) network across our state. The INBiz Initiative will help small-business owners and entrepreneurs create and grow new jobs through a wealth of information, management counseling, business advice, key referrals, and entrepreneurial education and training services. Access to the new INBiz Initiative will be through a dedicated website – **www.INBizPortal.com** – which will launch later this year. Through this "front door," SBDCs will be able to engage new partners, increase resources available to Indiana small businesses and offer more to Hoosier entrepreneurs and start-ups than they ever have before.

Finally, we are reaching out to potential new job creators by hosting events that will enable them to receive feedback on their ideas from accomplished predecessors. The Indiana Economic Development Corporation recently partnered with TechPoint to host the first-ever Indiana Collegiate Entrepreneur Bootcamp. More than 400 college undergraduate and graduate students learned about the art and science of creating and managing a high-growth venture. Students learned practical tips and advice from some of the best entrepreneurs and investors in Indiana.

We hope that you will join the list of accomplished Indiana entrepreneurs and choose Indiana for your next business venture. We can assure you that we will do all we can to help your business succeed in Indiana. Please contact the Indiana Economic Development Corporation (www.iedc.in.gov) for more information on the programs referenced above or for assistance.

Mitchell E. Daniels, Jr.
Governor



Nathan J. Feltman
Secretary of Commerce

BUILDING AN Entrepreneurial DEVELOPMENT SYSTEM

By Jeff Heinzmann, State Director
Indiana Small Business Development Center Network

Indiana has made great economic progress over the last couple of years.

The Indiana Economic Development Corporation (IEDC) has landed a record number of new company expansions, which will bring good-paying jobs and investment to our state.

The governor and the IEDC have also brought a renewed focus on entrepreneurship, realizing that the commercialization of home-grown technologies and new business start-ups will help drive economic renewal and diversification in Indiana. Clearly, many of the jobs of tomorrow will come from entrepreneurs who choose Indiana as a home for the incubation and growth of their companies.

In this regard, Indiana is working to create the ultimate entrepreneurial environment, where good ideas are nourished, embraced and funded, and entrepreneurs have the tools necessary to succeed.

We know that if Indiana becomes a preferred destination for entrepreneurs and start-ups, job growth and economic prosperity will follow.

Taking the Initiative

With the aim of helping that growth to occur, the (IEDC) is launching its INBiz Initiative. INBiz will seek to engage the resources necessary for small-business success on a much larger and more diverse scale than ever before.

"Real wealth creation and dynamic growth occurs when entrepreneurs build creative companies that bring new and innovative products and services to market," said Bruce Kidd, director of Small Business and Entrepreneurship Programs for the IEDC.

"Entrepreneurial activity can take place anywhere in our state with the proper focus and energy," he added. "We expect the INBiz Initiative to create a 'front door' through which entrepreneurs can easily enter and embrace their new opportunity and find assets they need for growth."

The INBiz Initiative is the result of the many months of study behind IEDC's statewide strategic plan, Accelerating Growth. The study found an uneven distribution of entrepreneurial resources throughout Indiana and a need to ensure that Indiana's Small Business Development Center (SBDC) Network, a federally funded program of the Small Business Administration (SBA) with 11 centers throughout the state, provide adequate training, support, direction and information to Hoosier businesses and entrepreneurs as effectively as possible. These centers are located in Merrillville, South Bend, Fort Wayne, West Lafayette, Kokomo, Indianapolis, Muncie, Terre Haute, Madison, Bloomington and Evansville.

The SBA's five-year strategic plan is very much in line with the findings of Accelerating Growth and the INBiz Initiative, and as such provides additional guidance and insight into how the INBiz Initiative, through the power of the existing SBDC network, will accomplish these goals. The INBiz Initiative's goal of building a unique and consequential entrepreneurial development system is the same as the SBA's objective: Increase the positive impact of small-business assistance upon the number and success of small-business start-ups.

Indiana Is Ready to Lead

Whitney Peake and Maria Marshall of Purdue University released a paper in January 2007 through the SBA Office of Advocacy titled, "Getting the Most Bang for the Buck: An Analysis of States' Relative Efficiencies in Promoting the Birth of Small Firms." The paper sought to identify the expenditures state governments can target to indirectly promote company birth and determine states' relative efficiencies in utilizing those expenditures.

Peake and Marshall's results indicate that state government expenditures on education, highways and natural resources positively affect the number of start-ups. This is good news for

Indiana. Indiana's relative efficiency rank was 34th in 1999, 2000 and 2001, and jumped to 24th in 2002, the last year for which the analysis was available. Since then, Indiana has restored funding to K-12 and higher education; passed Major Moves, creating a fully funded comprehensive 10-year transportation plan; and begun an aggressive campaign to produce and promote energy generated through the creative and advanced use of Indiana's natural resources.

Rankings Show Indiana On the Move

The Ewing Marion Kaufman Foundation's 2007 State of the New Economy Index ranks Indiana third in the utilization of new technologies in state government, helping to foster broader use of information technologies among residents and businesses; sixth in package exports; 11th in foreign direct investment; and 16th in fastest-growing firms. Indiana was also the fifth fastest mover in industry investment in research & development from 2002 to 2007, rising from a rank of 34th to 24th. The foundation has been laid and Indiana is poised for growth.

Stage One: Building the Network

The driving force behind the INBiz Initiative will be Indiana's SBDCs. Key partners of the SDBCs include educators, economic development professionals, lenders, venture capitalists, lawyers, accountants, marketers, and government officials – all people who can add to the effectiveness of small business assistance to help more Indiana start-ups and existing small companies survive and thrive.

The INBiz Initiative will help broaden the SBDC network into a virtual resource network through which Hoosier entrepreneurs and existing businesses can more easily identify and engage the assets and support they need to fuel their growth. SBDCs will continue to provide the services they have in the past, but through this broader network, they will be able to do so more quickly and effectively.

Potential service providers interested in supporting the INBiz Initiative will be able to sign up at www.INBizPortal.com, the initiative's new web site, which will be available soon. By constantly engaging new partners from the academic, private and public sectors, the SBDCs will be able to offer more to Hoosier entrepreneurs and start-ups than they ever have before.

By "connecting the dots" through bringing these partners to the entrepreneur's table, the INBiz Initiative will build an

"The INBiz Initiative will develop an entirely new culture through the centers where entrepreneurs can see the big picture, both where they are and what's around them."

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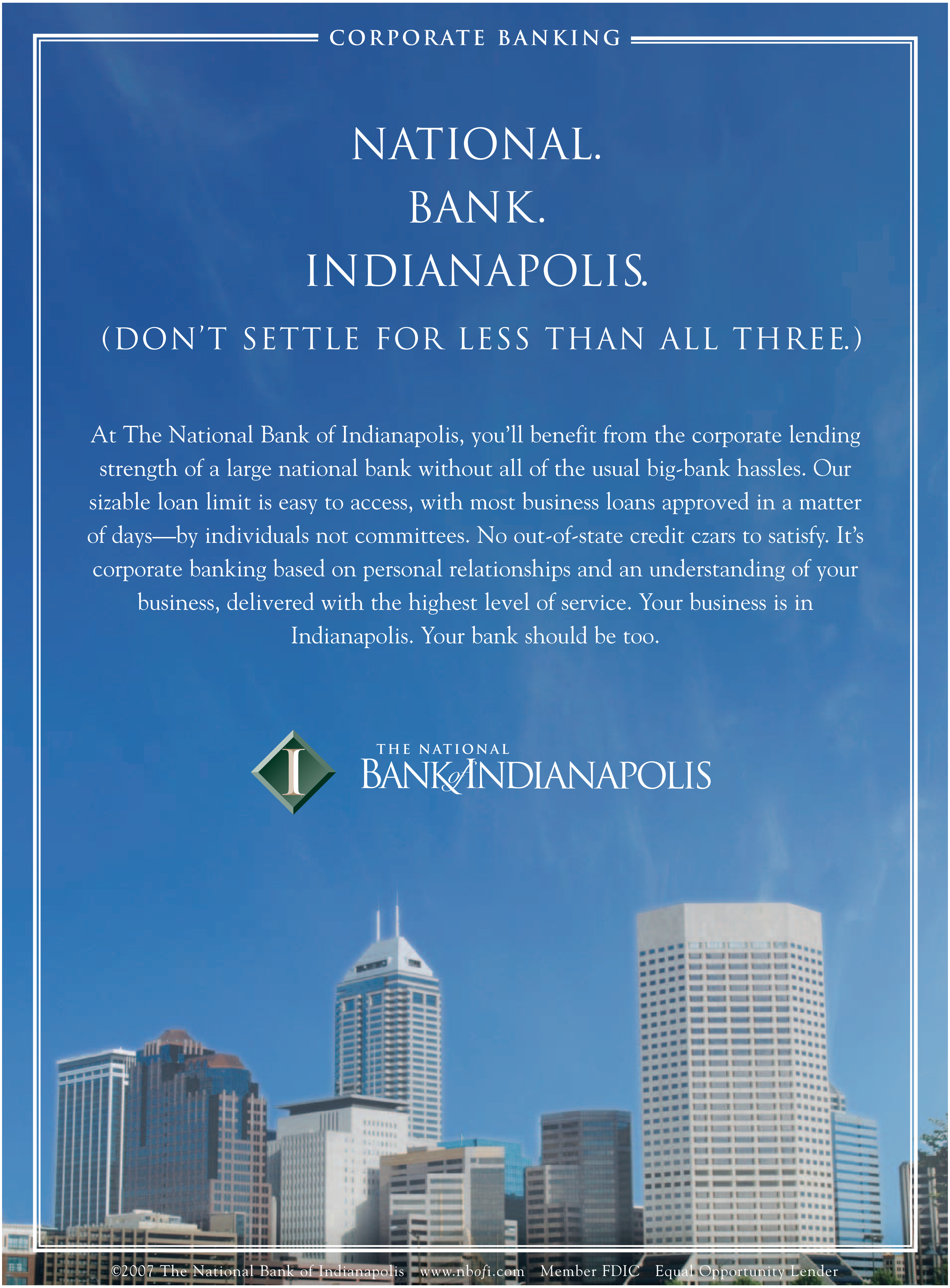
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The Masters

SCOTT MOLANDER

CO-FOUNDER, HAT WORLD, INC.

Scott Molander knows first-hand what it is like to take an idea for a new business and turn it into a $350 million company. For most of his life, Molander has been fascinated by the retail world – looking for creative and profitable ways to reach the consumer with unique products. In 1995, Molander and Glenn Campbell co-founded Hat World, Inc. Over the past nine years, Hat World has experienced phenomenal growth and is now widely recognized as the undisputed leader in specialty athletic headwear. With 700 stores located in malls and airports across 50 states in the U.S., and with new stores being developed in overseas markets like Canada, Hong Kong, Korea and China, Hat World continues to be the market innovator as well as the leading performer financially. As Executive Vice President, Molander played an integral role in the company's growth and diversification, and was very involved in key initiatives like capital raising from outside investors, the acquisition of key competitors, launching Hat World's e-commerce business, managing the distribution center, and identifying and negotiating prime geographic locations for expansion. The company's acquisition of its biggest competitor, Lids, in 2001 catapulted Hat World's revenue from $45 million to $120 million. Hat World now has $350 million in revenue and employs 200 people in Indianapolis and over 3,000 people worldwide. In April of 2004, Genesco, Inc., a Nashville-based provider of footwear and accessories, acquired Hat World. Company headquarters and distribution center remain in Indianapolis.

SALLY R. BYRN

VICE PRESIDENT OF PHYSICAL AND ANALYTICAL CHEMISTRY, APTUIT, INC.

Sarah ("Sally") R. Byrn was President and CEO of SSCI (Solid State Chemical Information) until it was sold to Aptuit, Inc. in October, 2006. She now serves as the Aptuit Vice President of Physical and Analytical Chemistry. A graduate of DePauw University with a B.S.N. (nursing), she honed her organizational skills managing a household of eight children. SSCI was founded by Byrn and her husband Steve, a Purdue professor of pharmacy, in 1991 to teach short courses in Steve's area of expertise, solid-state chemistry. The short courses created a market for these services and a lab was opened in December, 1993 in the PRF Research Park.

Photography by Tod Martens

Speak

TOBY BUCK
CHAIRMAN AND CEO,
PARAGON MEDICAL, INC.

Toby Buck has a varied background. He grew up in a dairy farming community in southeastern Minnesota. His educational background is in engineering and finance, both at the undergraduate and graduate levels respectively. He is a graduate of Purdue University and The Harvard Executive Development Program, as well as a graduate of MIT Birthing of Giants Program. He has worked for the past 25 years in three different markets: aerospace, automotive and the healthcare area. His professional experience is composed of progressive career movements within Fortune 100 Corporations, up to the level of Internal Director. His divisional responsibilities included management of 11 different manufacturing facilities throughout the United States and the Pacific Rim. He is co-founder of Paragon Medical, Inc., located in Pierceton, Ind., a manufacturer of medical devices for the orthopaedic community worldwide, and currently serves as Chairman and CEO. He has extensive experience in the private and public equity markets and has helped facilitate four successful equity offerings. He was named 1998 Entrepreneur of the Year for small manufacturing firms, and received the 2004 Ernst & Young Entrepreneur of the Year award in the life sciences category for the State of Indiana. Buck has served on multiple private and public corporate boards of directors for both profit and non-profit organizations.

Q: *What would you describe as the single most important talent or trait a successful entrepreneur must possess? Why is this important?*

SM: There are many traits required for success as an entrepreneur. If I were to pick one, it would have to be perseverance. There will be so many things getting in your way as you grow your business, you'll sometimes feel like quitting. When that feeling comes up, you have to persevere. Nobody is going to persevere for you. Also, when you feel like quitting or think "I can't do this," remember that if starting up a successful business was easy, everybody would be doing it. Feeling a little fear from time to time is common.

SRB: In my view, the number-one required trait is the ability to stay focused on the business. Many entrepreneurs want to keep changing their minds.

TB: The number-one trait of a successful entrepreneur is that he or she has to be an eternal optimist and never stop believing. If the founding entrepreneur loses faith and shows weakness, what does that do to your team? Very early on, the entrepreneur has to transition from inventor or idea-generator into a leader. The entrepreneur leader has to inspire employees and engage their hearts in what they're involved in.

Q: *What gave you the vision that led to your success?*

SM: My co-founder, Glenn Campbell, and I were working in a large retail sports operation and we saw something that others didn't see. We had insight in a segment of the sports apparel business and we couldn't convince our then-employer to do something about it, so we did. Before we opened our first Hat World store we did a lot of research. Since our business would be based in retail malls, we visited a lot of them. We saw businesses making good money selling pretzels, soap, muffins and cookies, things that one would initially think won't sell well at all in malls. That meant that there was a certain amount of "impulse buying power" with most mall visitors. We looked hard at our target market and what its capacity would be for buying our products. Our product was tangible and its benefit would extend outside of the mall. Our research showed that our products could also be strong in the collectables market, and that proved true. We also found that our main future competitor was not executing well, so there was room for us to get into that retail space.

SRB: My husband was the visionary and I ended up being the facilitator for the idea. Our vision came from the fact that we saw a need within the pharmaceutical industry. When people heard about our idea, they came knocking. The biggest issue was being prepared when opportunity came.

TB: My vision came from the freedom to create that is inherent in being an entrepreneur. I wanted to create a legacy, something that went beyond the "almighty dollar." The great game of business, if played fairly, brings freedom to create opportunities for others to create their own value and, over time, their own wealth.

My vision also included the fact that regardless of the business model, you have to see things that others don't see. You have to trust your instincts. Over time I cultivated a lot of relationships. Through those relationships I was able to see a gap in services in a critical area. We developed a comprehensive, yet flexible, plan to fill that gap and then were able to fulfill it, all because I trusted my instincts and saw opportunity where others didn't.

Remember that when you're writing your first business plan, it's not set in concrete. The plan that you start out with will become more refined over time.

Q: *What is the single greatest lesson you learned as a successful entrepreneur?*

SM: I learned that hitting a few small potholes in the early years can be good, but only if you're listening, paying attention and willing to change. Connected to that lesson is the fact that you have to surround yourself with great people who share your vision and are willing to work hard with you. We found that people can doctor up resumes and look good on paper. Making good hires is very, very important for entrepreneurs in start-ups. Hiring the wrong people can kill your business.

SRB: I learned that people really do not fundamentally change. If you hire someone, you should not expect them to change so much as you need to find a place for them to use their gifts for the company's benefit.

TB: I would cultivate an ability to listen better and to act on my instincts that followed after I had listened carefully. I today believe that there is no better algorithm for an entrepreneur than tempered instincts. I also found that cultivating relationships with mentors and peers was absolutely critical – you need people who believe in you and who will help you collectively pursue your goals. Remember this: no entrepreneur ever realizes success solely on their own.

Q: *If you were starting today as a new entrepreneur, what would you do differently?*

SM: I would pay more attention to details of planning and minimize distractions. Like lots of entrepreneurs, we were lucky starting out. There are some that believe that luck is created, and I won't necessarily disagree with that. Raising capital for acquisitions got a little distracting from us paying full attention to our core business in the first few years. Today, our core business is always first and foremost.

SRB: First thing I would do is to find someone to teach me how to really read a financial statement. There's a big difference between knowing the elements of finance and understanding their implications. Over time I figured it out and became more sophisticated. Entrepreneurs really would be well served to obtain a good understanding of accounting and finance as they go forward.

TB: All young entrepreneurs – that is, young in experience – give away too much of the pie too early. They give away too many things for free that they should be compensated for. Entrepreneurs need to look at the banks and their example. Banks aren't Baptist missionaries – they want something in return. When an entrepreneur is looking for investors, they need to remember that they have a tendency to give away too much equity.

I also undervalued the fact that experience is the best teacher. I have an undergraduate degree from Purdue and a graduate degree from MIT, but experience taught me more than the two combined. Entrepreneurs just have to get in the trenches to figure it out.

Q: *How can entrepreneurs find suitable mentors or build a network of supporters?*

SM: Finding, keeping and tapping into mentors is critical for success. Go to a lot of meetings where entrepreneurs and mentors are, but don't just be a business card collector. Be prepared to contribute back.

If you've got a great idea and are working hard, mentors will want to help you. If you are fortunate enough to secure a network of quality mentors, always be respectful and thoughtful of their time. Never ask your mentor to do work that you should be doing. When you ask a mentor to evaluate your business plan, never ask if they would mind re-writing it. Believe it or not, that happens. Make sure you're paying attention to your mentors. I am personally surprised today that a number of the entrepreneurs whom I've mentored sometimes ask the same questions over and over again.

SRB: I had the good fortune to have mentors who were also good teachers. My former DePauw professors insisted that we surround ourselves with the best people we could find. That was great advice. I suggest that entrepreneurs surround themselves with good people who are also able to teach as they go.

TB: From my view, ignorance is not so much a problem in business as is the illusion of knowledge. Mentors help you avoid this.

Again, I have to come back to gaining experience. You have to go out and cultivate relationships. Some will be more useful than others. You also have to be prepared to give back when your time comes, which will likely come sooner rather than later.

People like to be around others when everyone is climbing toward a goal. When you've made a mistake and feel ready to quit, others will see opportunity and help you see past the turmoil of the moment.

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Q: *What is the most common error that new entrepreneurs make?*

SM: New entrepreneurs are almost always way too high on revenue estimates and way too low on costs and expenses. Entrepreneurs often don't realize just how hard it is to really grow a company. Perhaps the second most common error is that entrepreneurs have a hard time saying "no."

SRB: The most common error is that entrepreneurs tend to try and learn and do every single part of the business instead of delegating. You can't do it all. We found that many of the people we started with couldn't grow professionally as fast as the company needed them to. I would start with the assumption that you'll probably replace just about everyone as the company grows, particularly if it grows fast. Make sure that is understood by everyone on the team from the beginning. That includes the founder as the manager of the business.

TB: Listening to the wrong people. Entrepreneurs need to listen to the people who've done it and have experience.

Also, entrepreneurs make the errors of making bad hires and not surrounding themselves with great people. A journey of any magnitude is not for the faint of heart. Sometimes you have to put on your corporate battle armor. You have to have the right people on your team to support the entrepreneur vision.

Q: *When faced with mountains of work as a new entrepreneur, what kept you going?*

SM: My personal motivator was when I looked at our employees and realized that they were depending on us. It's a real motivator to understand that you're creating a business that pays the mortgage for your employees, that keeps their kids fed and puts their kids through college. For an early entrepreneur, the days will probably come when you can't take a paycheck because there's not enough short-term cash to completely meet payroll.

The other motivator is that you as an entrepreneur have the freedom to create a culture where people can have fun at work. Sometimes our employees said that they were having so much fun at work that it should be illegal. That's a great motivator.

SRB: As a mother, I found that starting a new business wasn't that much different from having a new baby. A new baby takes an enormous amount of your time. It's hard to go off and leave the baby, even if you're leaving the baby with competent people. The same is true of a new business. Both require 24/7 attention.

TB: Believing in the vision and never giving up. Winston Churchill underscored this when he spoke at his alma mater. Three times he said, "Never give up!", then concluded his speech.

The Colt's 2006 AFC Championship game against the Patriots brings this home. The Colts were down by more than two touchdowns against their traditional nemesis. Many would have given up. The Colts refused to yield against odds that would have stopped most, working patiently as a team step by step to come back to a win.

Q: *When your business experienced setbacks, how did you overcome them?*

SM: I had a core group of friends who served as a sounding board for me to help put together creative solutions. I learned early on that I could not be a "master of the obvious" when it came to overcoming problems. When you hit problems, you're the most successful when you find a creative solution that changes the status quo.

SRB: We started a business that ended up growing at the terrifying rate of 723 percent over a five year period. When revenue flattened, the management team was on the verge of divorce. We created committees with employees to analyze why revenues were flattening out. We found out that there were a combination of reasons for the slowdown, and the employees began to self-correct the problems. We had a bonus system in place, so the employees were motivated. Management didn't have time to set a new course before the employees had already made the changes.

TB: I learned from experience, sought advice and trusted my instincts. Remember, fortune favors the prepared mind.

Q: *Why is a business plan so important?*

SM: While most business plans are obsolete to one extent or another when you actually start executing, they serve a number of important functions. First, they give you a benchmark from which to measure both change and progress. Second, they keep you from losing focus. If an issue comes up down the road, you pull out your business plan and make an intelligent decision about how to handle it. If you have to change the business plan, at least you know why you're changing it instead of just bobbing up and down like a cork in the marketplace.

SRB: The process of writing the business plan is more important than the product. The process allows you to see gaps that you otherwise won't see. Even if you don't need to raise money, you should write a plan.

TB: Your business plan is a living road map. It's not a prison cell. Your business plan gives you a place to start. You know it will change, but without having a business plan, it's hard to know what direction you're changing to. A good business plan will allow you to make good adjustments tactically.

Q: *Why is Indiana a good place to start a business?*

SM: There's a lot of support today in Indiana for entrepreneurs that didn't exist anywhere a decade or so ago. Resources are plentiful at universities, within state and local governments and elsewhere, including angel networks and other funding resources that understand and promote a Hoosier entrepreneurial culture.

SRB: Indiana is great. It's a great place to live. It has a great quality of life. The state gets it regarding entrepreneurs and is willing to help out. It's getting easier to travel to and from Indiana. People coming to us in West Lafayette mention how easy the hour drive is to and from the airport compared to their commutes on the East coast.

TB: There may be more favorable geography, but there are no better people.

Getting New Technologies to Market

By Steve Brown
President, i4Gc

As an entrepreneur, you want to start a company based on a patentable technology that will give your firm a sustainable long term advantage.

Perhaps you have your own invention. Or perhaps you see a potential opportunity that others have not yet recognized. Maybe you know someone who has been successful as an entrepreneur and feel you could be as successful as they have been. Whatever your situation, thinking through some of the ideas in this article might help you achieve your goals more quickly.

Everyone has advice for you. If that advice doesn't feel right, ignore it. (This article included!) As you know, most truly disruptive ideas are rarely embraced immediately. The following suggestions are based on my experience working with over 100 startups at MIT. We are all prisoners of our own experience and my experience may not map well onto yours.

Define the idea.

An idea doesn't have to be your idea; it can be one that a potential startup partner has, or an idea from a university, hospital, research institute or individual that you have found. Search the patent literature at www.uspto.gov to identify these ideas and contact the owner to obtain an option for evaluation and/or a license for commercialization. At the same time, identify weaknesses in the existing patent literature that may provide an opportunity for you to submit new patent applications and create new commercial opportunities.

From a patent perspective, it's important to note that to patent a product or service all elements do not have to be original. A novel combination of known elements can be patented. The inventor of the insulating sleeve for a coffee cup made significant money by taking known items, cardboard and adhesive, and simply connecting them end to end to make a sleeve that fits over the coffee cup. The next time you say to yourself, "My idea or this idea is too obvious to be patented," go to http://patft.uspto.gov/netahtml/PTO/srchnum.htm, type in patent number 5,205,473 and review the sleeve patent.

Protect the idea.

Prior to filing a patent application, ask others to sign non-disclosure agreements before you discuss your ideas with them so that your patentability is not compromised. File a provisional or full utility patent application once you have determined that it has commercial value and that you intend to commercialize it or license it.

Ensure "freedom to operate."

While your idea may be patentable, do you have "freedom to operate?" In other words, you may obtain a patent but may be prevented from using your invention because of a patent held by a third party.

Consider the following example: Suppose your friend has obtained a patent with the first claim covering "a four-wheel cart that can carry a load." You can obtain a patent with a first claim of "a four-wheel cart that can carry a load that is motorized" – because compared to his invention your invention is novel, useful and non-obvious. But you can't use or sell or manufacture your invention without first obtaining a license to his patent since "each and every element" of his first claim is present in your invention.

Make sure you do a complete search of the literature not only to determine if your idea is patentable but also to determine if a license to an existing patent might be needed in order to practice your own invention. After you have done your investigations, it is important to review your findings with a patent attorney if you intend to commercialize the idea.

Investigate commercial value.

Thousands of U.S. Patents have been granted that may never have commercial value. Early customer feedback is the best way to determine value.

You don't have to disclose your idea to get feedback. Simply describe what your product or service does, how much it will cost, and how it compares with the current best way of achieving the same results. Ask the potential customer if they would be interested.

The first person you call might not be the right person to give you accurate feedback. But by asking who else you should talk to, you may get referred to an excellent source of accurate market feedback. Don't try to perfect the product or service before you obtain feedback.

You may be solving a problem that no longer exists, but customer feedback will point you in the right direction. An internationally known chemist intended to file a patent on an idea to make a particular process more efficient. Prior to filing, he took part in a conference call with a major potential user of that process who told him that efficiency was less important than reducing the time to complete the process (cycle time).

As a result of that 30-minute phone call, he revised his research plans and concentrated on reducing the cycle time so that when the patent was filed it covered the most commercially significant benefits of his invention.

Look for that third party.

An inventor often is not aware of the commercial potential of their invention or mistakenly pushes a product or market that is not necessarily the best one to build a company around. Frequently, a third party who is intimate with a particular market or application triggers the formation of the startup based on their identification of the commercial need for the invention. Seldom is the inventor the founding chief executive. Frequently, it is this third party who plays that role. This fact is another reason why extensive networking by the inventors and founders is highly leveraging.

Build your team.

The success of startups directly correlates with the number

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of initial founders who have complementary skills. Three engineers or three salespeople that start a company are statistically less successful that a founding team of an engineer, a salesperson and an experienced business person.

If you have a hunch that the founding team won't be able to work together smoothly because of personality issues, change the team until you have personalities that mesh and will be able to cooperate when you are under significant stress. More promising companies fall apart over personality differences than over technology failures. You will probably find that your total founding team may not stay together as your business grows. The original team may dissolve and re-form with new members a number of times before you start achieving your potential.

Focus on improving probability.

Building a successful business is all about increasing the probability of good things happening.

For example, when you add founders with complementary skills and experience to your team, the probability that you will be able to get useful contacts, information and resources goes up. When you study the history of startups, it appears that the successful companies got some critical breaks quite by chance and luck. But when you look deeper, often those breaks came about because the teams were well-networked within diverse heterogeneous groups. The teams felt comfortable discussing their programs and products. Businesses in these networks were good listeners and took action to change their products, markets and team when warranted by facts. Since many businesses achieve success after making these type of changes, remain open for the need for change when justified. Be ready to take advantage of "accidents, luck and the prepared mind."

Learn from others quickly and at low risk.

Entrepreneur and venture capital "competitions" are often a good way to test a business idea. Seeing how others approach creating their companies can provide important clues on what to do and what to avoid.

Organize for success.

There are many sources of helpful information about organizing a startup available from government, university or other sources.

Before you quit your day job, use every available moment – weeknights, weekends, vacations and holidays – to research your market and refine your product. Most startups come together gradually over time, and founders often have difficulty identifying exactly when they started the company. Look for mentors, advisors and service providers who have reliable contacts with your potential customers, suppliers and industry. The can accelerate your entry into the marketplace.

Know your own strengths and weaknesses.

While the idea or service concept may be yours, think about the fact that you may not possess the management or business analytical skills ultimately required for your company to reach full potential. You need to be prepared to step aside from a chief executive role if the growth of your enterprise requires it. Funders are positively impressed by a founding team that takes this position because it eliminates one of the main reasons companies can't grow to the stage when they can go public or be acquired.

Raise capital.

Talk to investors before you need capital. Take less than 15 minutes of their time and tell them where you will be in six months. Six months later, if you have achieved your stated goals, you will have obtained more credibility from that 15-minute phone call than from a full-day presentation.

Identify barriers to entry.

What will keep others from competing with you once you demonstrate that your product or service has significant commercial value? Don't just rely on a patent or on having been first to market. Who might be your major competitors? Could you partner in a limited field with one of the majors to gain access to their resources, insight and ideas? If you see a competitive threat where competitors might be able to adapt elements of your idea to improve their products, consider filing ancillary patents to protect your intellectual property.

Don't waste time – go to market.

A common failing is to engage in perpetual improvement. If you've got a product that meets specs and works reliably, get it into production and into the marketplace, and then listen very carefully to your customers – but not too carefully! Customers often cannot describe what they need, but they can recognize what they need when you give it to them.

Depending on the capital required to create your product, there may be the opportunity to create and introduce a version 2.0 of your product.

For example, if you're a software developer with a product that has 100 features, remember that your consumers will probably only use the top five or so features. Make those features bulletproof and fix the rest after you've gone to market.

Good luck!

As President of Innovate4Growth Consulting, **Steve Brown** advises clients on how to identify and evaluate commercial opportunities for inventions and how to identify and reduce barriers to commercialization in an organization or a region. Brown has spent most of his career directly involved in the management of new products, business development and commercialization activities. He has worked with over 100 successful U.S. technology-based startups during his career at MIT, either as the licensing officer who negotiated their license; as the licensing office ambassador who provided them with advice and contacts; as a judge in MIT's 100K entrepreneurship contest; or as an evaluator of their funding proposals to the Deshpande proof of concept fund. Brown has also worked with groups representing over 15 different countries interested in best practices for regional economic development. In 2003, he spent a month consulting with the University of Cambridge Technology Transfer Office in Cambridge, England, on university technology commercialization practices. No stranger to the Midwest, Brown and his family lived in Midland, Mich., for more than 10 years when he worked for Dow Chemical.

RAISING Money & Hopes

By David B. Becker,
Chairman and CEO,
First Internet Bank

You've dreamed up a great new product and have entrepreneurial fire in your belly. You like your product; your friends and colleagues like it. You're ready to quit working for "the man" and start out on your own.

So. How are you going to fund this?

If you're like most entrepreneurs, this is the most difficult question. As you make your way in the first months and years of running your own business, you will likely come face to face with what it means to be under-capitalized. You'll see opportunities emerge before your eyes and wonder just how in the world you'll ever get the money to seize those opportunities.

As you start out, the odds remain that your initial funding will be "organic," which is a nice way of saying that the money that starts your business will come from you, your family or your friends.

Some entrepreneurs look immediately toward securing venture capital for commercializing their prototype or idea. Unfortunately, venture capital represents "hot money" that typically has a lot of strings attached and isn't very patient.

If you're at the "seed" or starting-out phase, you'll likely need more "patient capital," which represents funds from a private investor who may be more willing to wait awhile for you to build your company up before they want payback.

This type of private-equity funding is commonly called "angel funding," as the investor becomes a type of financial "angel" who enables you to pursue your dreams. Some states and regions have open "angel networks" for entrepreneurs to openly pursue. Indiana has some of that, particularly through contacts at the Indiana Venture Center and other organizations, but the state also is home to a vigorous "underground" angel network. Indiana has hundreds of wealthy and willing private investors. But you'll likely have to do some digging to find the one who matches your needs.

So let's assume that you've been successful. Your growing network has yielded a number of prospective angels, and you're now ready to talk to a few.

But before you go forward, ask yourself: Are you really ready? As both a long-time entrepreneur seeking funds and a banker counseling entrepreneurs, I've seen both sides upfront and personal. To that end, consider these points:

► ARE YOU REALISTIC?

Most angel investors are former entrepreneurs themselves. They remember well the occasional dose of reality they had to take on the way toward realizing dreams of their own. Because of the dot-com days, a myth still exists in Indiana that an entrepreneur can scratch out an idea on the back of a pizza box and get an investor to write a check. Have you written the proverbial business plan, thought through the potential market to the best of your ability and mapped out how at least you think you're going to go to market? A strong concept or idea may initially get you 30 minutes and a cup of coffee with an angel investor, but you need to expect a big homework assignment if you haven't presented an idea firmly grounded in reality.

► AVOID "HOCKEY STICK" FINANCIAL FORECASTS.

This is where the financial projection graph resembles a hockey stick -- the first year or so shows very moderate growth, followed by a period where projected financial forecasts go nearly straight up. "Hockey stick" forecasts rarely occur in real life, and your angel investor knows that from experience. Remember point No. 1 – be realistic.

► HOW MUCH RISK ARE YOU WILLING TO TAKE?

A common mistake in initial business plans includes the entry that shows more than 50 percent of the angel investment going to the entrepreneur's salary in the first 12 months. In effect, that's asking the angel investor to absorb all of the risk. You've probably heard the phrase "He's got skin in the game." That refers to the fact that the entrepreneur has his or her own money or assets tied up in the venture. When you have "skin in the game," that suggests to the potential angel investor that you're confident enough in your idea and ability to go to market that you've invested your money or "skin." Asking an angel investor to absorb too much risk is a deal-killer.

► DO YOU HAVE PLENTY OF ADVISORS AND INTELLECTUAL ASSETS?

Nobody can do it all, and entrepreneurs are likely already strapped by the time they get to an angel investor. Having an informal advisory panel in place shows the potential investor that you're serious. It also likely is a source for generating customer leads for your beta products, and represents good information that can help make you more objective as you move forward. When I was starting out, both my grandfather and father served as excellent sounding boards, so don't overlook family intellectual assets either.

▶ HAVE YOU REFINED YOUR IDEA OR PRODUCT ENOUGH?

Many, if not most, entrepreneurs are initially smitten with their idea or product. It's very personal to them and they often put it up on a pedestal for all to admire. However, remember this: No parent thinks his or her child is anything but beautiful. Before you take your prototype or idea to an investor, spend some serious time looking at it from every angle. Is someone making something even remotely similar? Can someone make this product cheaper overseas than you can make it here? Does your idea represent a new product that should be sold to an existing company, or does it represent a potential new platform on which to raise an entire company? Refine your idea, and then refine it some more.

▶ ARE YOU MAKING YOUR BUSINESS PLAN LOOK LIKE A GREAT INVESTMENT? OR ARE YOU ASKING FOR A CHARITABLE DONATION?

Angel investors like the first concept a lot. They don't like the latter very much at all. While angel investors are typically more patient in seeing a return on their investment, they still want a return. If you want free money, look for a grant.

▶ DO YOU HAVE A TEAM READY TO BE PUT IN PLACE?

At the beginning, the entrepreneur is going to do it all. But after a while, the entrepreneur will burn out if he or she isn't prepared to hire great people to support the vision and make money. Also, park your autocratic ego at the door if you're looking for investors. If someone comes along who can run segments of your business better than you, you need to be prepared to yield and let that person run with it.

▶ WHAT'S YOUR ELEVATOR STORY?

Angel investors see a lot of proposals, and a short, well-thought-through summary of an idea and a supporting business plan will likely win you a serious look. When writing your executive summary, think about how you would explain your idea and its investment worthiness during the time it takes for an elevator to go from the first level to the 10th floor.

Not a month goes by in the state of Indiana without some major angel investor infusing some serious money in an entrepreneur. But that same entrepreneur may have written and re-written his or her business plan as many as five times before they were funded.

Sometimes an angel investor will turn down a business investment just to gauge how much persistence the entrepreneur has, as the investor knows that strong persistence is required for success. Further, many angel investors turn down a business plan the first time because they are not convinced that the entrepreneur will actually execute on plan.

Often an angel investor may assign homework for the entrepreneur to complete and add to the business plan for re-evaluation. An important tip: If the angel investor does assign homework and asks you to complete it by a certain date, don't fail to make that deadline. The investor may well be testing your organizational ability, which includes a capacity to deliver on time.

Entrepreneurs secure investments every day. If you don't succeed on the first try, hone your listening skills, get feedback and try again. Failure is part of the entrepreneurial experience, and as my father once told me in my early career, "No matter what happens, they can't eat you. You will always survive."

David B. Becker has served as Chairman of the Board and Chief Executive Officer of First Internet Bank since its inception and has served as President since January 2007. A past recipient of the Ernst & Young Entrepreneur of the Year award, Becker has a history of successful start-up companies in financial services and technology. In 1981, he founded re:Member Data Services to provide electronic data processing services to credit unions throughout the United States. He served as CEO of re:Member Data Services until the company was acquired by Open Solutions Inc. in 2004. In 1995, he founded VIFI, which provided Internet services to financial institutions and corporations from 1995 until it was acquired by Digital Insight Corporation in 2002. Becker also founded, and remains actively involved as CEO of, three other Indianapolis-based companies: OneBridge, a credit and debit card processing firm; DyKnow, a company specializing in educational technology for interactive learning experiences; and Inception, a firm created to consult, fund and incubate other entrepreneurs' start-up endeavors.

LANDING THE BIG FISH OF VENTURE CAPITAL

By John C. Aplin, Managing Director, CID Capital

Shortly before the beginning of this century, otherwise sane and seasoned financial professionals appeared to collectively go mad. Multiple millions of dollars were raised and spent in a frenzy that easily could have been a chapter in the classic best-seller on human dynamics, the 19th century work titled *Extraordinary Popular Delusions and the Madness of Crowds.*

Indeed, modern-day speculative "Tulip-mania" (where widespread futures investments in tulip bulbs drained many fortunes in the 17th century) materialized in the form of venture capitalists and investors of every stripe and color anxiously chasing after over-valued companies and stocks. Just a few short years ago technology investors – savvy pros and first-timers alike – feared missing their opportunity for "an Internet play" and recklessly chased ridiculous business concepts.

When all was said and done, the so-called "dot-com bubble" burst. Newly minted multi-millionaires lost their paper fortunes overnight, and previously promising technology companies faded into oblivion. Analyzing the fiscal debris, economists found that an astonishing $1 trillion of investment capital, savings and outright cash was consumed in this technology travesty.

Licking their financial wounds after the bubble collapsed, investment professionals and fund managers returned to more sedate and tried methods of selecting promising investments.

So why would any of this ancient history (by Internet standards) matter to Indiana entrepreneurs seeking venture capital today?

Through inaccurate word-of-mouth and off-target media coverage, venture capital – VC – funds acquired an unsound reputation as "easy money" during the tech-bubble days. Unfortunately, that false perception remains in part today.

Not a month goes by without my reviewing (however briefly) an entrepreneur's "business plan" that predicts a billion-dollar market for a new product, fueled by vast amounts of VC funding. Compared to reality, such proposals appear at best to be over-optimistic and occasionally border on the outright delusional.

Venture capital was around a long time before the late-1990s technology deals surfaced, and under-capitalized Hoosier entrepreneurs need to know what venture capital actually represents and what it takes to secure it. Knowing and understanding these two issues up front will save time on both sides and speed up the journey for funding.

So what exactly is venture capital and how can you get it?

Before you approach a venture-capital professional, understand that venture capital requires the potential of a high rate of return. As an example, a $10 million VC investment should have the potential to return $50 million at the end of five years, a typical period when a venture capitalist expects to exit from a company.

So when a venture capitalist looks at

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your business plan, he or she wants to immediately answer two questions:

1) HOW BIG CAN THIS DEAL BE?
2) CAN IT, REALISTICALLY, ACHIEVE THOSE GOALS?

At the heart of these questions is the product, service or invention that the entrepreneur is bringing to the table. To achieve the rate of return required for a VC investment, that product or service has to be able to hit the ground running at high speed once the VC funds are in place.

I'm not a gambler by trade, but the analogy of a poker game is effective here. Many entrepreneurs sit down to play poker with a venture capital investor expecting to collect a big pot of money. What happens most of the time is that the entrepreneur overvalues his or her cards or overplays the hand. While, in reality, the entrepreneur may hold a pair of fours, they play like they have a full house. When they lose the hand or the VC pro refuses to play anymore, they're stunned and discouraged, even though they should have known better.

So how do you avoid this frustration and create success for both the VC professional and your start-up company?

Another analogy is useful here. Most VC deals are like a three-legged stool. One leg of the stool is the technology, product or invention. Another leg represents the potential market opportunity that the product can achieve. The final leg is finance. How will the commercialization of the product get funded? How much money will it take? And how are those funds going to be used to achieve eventual success?

Entrepreneurs must understand that venture-capital professionals and fund managers invest in all three legs of this entrepreneurial stool. Usually during a first review, the proposed investment "stool" is unbalanced. The technology leg may be very long, the market leg may be in two pieces, and the finance leg may be less than an inch long.

For a VC deal to take place and for the business concept to actually work, all three legs must be reasonably balanced.

First, before you approach a venture capitalist, take a long and hard look at your idea or invention.

Is it really a product that can achieve major market share? Or is your idea a feature that simply could be added on to an existing product? (As an aside, an add-on feature would likely not be a candidate for VC funding). Ideally, is the product truly robust enough to be the foundation of a company that can grow quickly and become a venture-funded company?

Way too many inventors or entrepreneurs fall in love with their idea. Because they love it, they think everybody will too. It's important to remember that many ideas have merit, but only a few truly can become the basis for the formation of a major stand-alone company.

Concerning the second leg: Have all of the gaps or weaknesses filled before you seek venture funds? Have you built "credibility points" that show your product has market appeal and that other important people see value in your idea?

That means coming in with evidence and third-party validation showing how your product or invention will actually succeed in a competitive marketplace.

If your invention or product already has customers who are using it—even beta customers who are using your prototype—this can greatly enhance your claims and boost credibility. If the venture capital professional sees that you have put together an advisory board, this suggests that you've thought through your strategy perhaps a little more carefully than most early-stage companies. If your research was paid for by a major grant, be sure to include that in your proposal. If you have a life-sciences product or service, coming to the first meeting with existing corporate alliances or strategic partnerships increases the likelihood that your proposal will get a serious review.

All of the above can increase your credibility, which contributes to a higher valuation and successful funding.

Now let's consider that important third leg: finance. The entrepreneur needs to establish an effective capital structure for the company before approaching an institutional investor.

To increase your chances of obtaining venture funds, give your company some momentum first by securing initial start-up funding from family or friends or better yet, an angel investor. However, here's a word of caution: When you're securing your initial private-venture investment, don't create a barrier to future funding by overvaluing your company.

For example, if a venture capitalist finds that the bulk of their proposed investment is going to pay off early-stage private stakeholders, the deal probably won't get done.

From that experience, together with

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VENTURE CAPITAL, continued from page 26

input from your advisory group, you should have a well-developed projection of what financial resources it will take to rapidly commercialize your product and go to market quickly.

Remember that putting together a venture-capital deal is as much art as science. While venture capitalists may try to quantify the process to reduce risk, many deals require a fair amount of subjective consideration and intuitive judgment.

However, if venture-capital professionals know one thing, it is this: Most deals don't fail because they lack potential. They fail because the funded companies don't execute and reach their goals.

With that in mind consider these three summary points before you schedule an appointment with a venture-capital professional or institutional fund manager:

- Be ferociously objective. Are you blinded by love for your creation? Build and use the expertise of an advisory group to heighten your objectivity.
- Achieve as much balance as you can in the three legs of your entrepreneurial "stool" and present a balanced business concept.
- Most people – particularly those who fail – sell potential and not performance. You certainly need to demonstrate potential, but if you're going to sell anything, sell execution and your ability to hit your targets.

Securing venture funding is no easy task. It's not uncommon to get turned down more than once before someone writes you a check. But deals get made every day, and by following these guidelines, there's no reason why one day your deal shouldn't be the one that gets funded.

Before achieving a successful career as a corporate executive and venture capital professional, **John C. Aplin** was a tenured business professor at Indiana University, and was a key player in the founding of the first MBA program in the People's Republic of China. Aplin joined CID in 1990 after serving as President and CEO of The Fuller Brush Company, a widely recognized supplier of consumer products. The company was acquired from Sara Lee Company in a transaction that he led. Prior to Fuller Brush, Aplin was President and Founder of an investment banking firm in Kansas City, Mo., where he was involved in the acquisition of nearly 30 companies in industries ranging from food manufacturing to information technology. Aplin is a director of FKI Security Group, a leading manufacturer of fireproof file cabinets and safes, as well as cash-handling and security equipment; Endocyte, Inc., a biotechnology company developing a new generation of receptor-targeted therapeutics for the treatment of cancer and autoimmune diseases; Appriss, Inc., the nation's leading provider of automated victim notification services, currently in use in more than 1,500 jails in 39 states; and Everest Biomedical Instruments, Inc., a medical device company developing products for two neurological markets. Additional information of interest to entrepreneurs seeking funding and preparing business plans can be found at www.cidcap.com.

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Great innovators and growing companies need cash to get new products to market, and Indiana has several unique programs in place to help Hoosier companies fuel their growth.

21ST CENTURY RESEARCH AND TECHNOLOGY FUND

The 21st Century Fund provides qualified entrepreneurs and small Indiana businesses that are developing market-changing innovations (products or services) with up to $2 million in investment funds. The focus of the 21st Century Fund was modified in 2005 to include entrepreneurs, and the fund subsequently has invested more than $37 million in 33 start-up and emerging Hoosier companies.

The 21st Century Fund is now designed for timely and fast response, particularly for companies attempting to seize time-sensitive opportunities. All applications are peer-reviewed by a nationwide network of product, industry and technology experts, as well as business leaders.

The 21st Century Fund also provides matching grants for qualified Small Business Innovation Research Phase I applicants.

SBIR/STTR GRANT FUNDING

The federal government makes available up to $2 billion worth of highly competitive research & development funding annually for small businesses in the form of the Small Business Innovation Research (SBIR) and the Small Business Technology Transfer (STTR) grants. A successful applicant will likely receive between $80,000 to $100,000 for a Phase I research grant, and successful Phase II grant applicants (particularly in the Defense or Homeland Security categories) can receive up to $750,000.

To support Indiana innovators and help accelerate the development and commercialization of exciting new products, the Indiana Economic Development Corporation (IEDC) makes available several services for SBIR/STTR applicants, including a 100 percent cash match of Phase I awards through the 21st Century Research and Technology Fund. In addition to the matching of successful Phase I awards, IEDC offers direct – and free – assistance from experienced SBIR veterans in determining whether an idea or concept is suitable for SBIR/STTR funding, proposal writing and reviews, and training sessions to help develop commercialization plans.

VENTURE CAPITAL INVESTMENT TAX CREDIT

To successfully attract more private venture capital to high-growth companies, the state makes available tax credits up to $12.5 million over a two-year period. The VCI tax credits provide individual and corporate investors with a major incentive to invest in Indiana early stage companies.

Investors who provided qualified debt or equity capital to Indiana companies can receive a credit against their Indiana income tax liability. “Pass through” entities whose shareholders have Indiana income-tax liabilities are also eligible for the credit.

Indiana businesses must be certified by the IEDC as qualified before they accept outside funding for their investors to receive the VCI tax credit.

CAPITAL ACCESS PROGRAM

Many small businesses require funding that may not necessarily meet conventional lending requirements. The Indiana Capital Access Program (CAP) is a small business credit-enhancement program that creates a cash-reserve account to help bridge that gap.

This program, administered by the IEDC, contributes funding that helps conventional lenders minimize risk exposure for new Indiana business lending. Depending on the nature of the proposed loan, the IEDC matches certain types of lender dollars and triples its contribution if the borrower is an identified high-growth, high-skilled company paying high wages to skilled workers.

CAP has helped Indiana lenders make more than 3,300 loans totaling in excess of $160 million, helping the creation of more than 10,000 new Hoosier jobs.

LOAN GUARANTY PROGRAM

The IEDC can provide additional aid to conventional lenders seeking to loan funds to Hoosier businesses for growth. If the Indiana company is identified as a high-growth, high-skilled or other such company that can demonstrably create or retain a significant amount of Hoosier jobs, the IEDC can provide a credit enhancement through the Loan Guaranty Program. To date, the Guaranty Program has participated in the funding of more than 80 loans providing more than $84 million in guaranteed loans to Indiana businesses.

Hoosier entrepreneurial companies should consult their lender to determine whether they meet the necessary criteria. While a number of different types of projects or companies may be eligible for this support, certain high-growth, high-skilled companies may be eligible for a maximum guaranty of 75 to 90 percent of the loan balance, depending on available collateral.

Indiana is serious about supporting entrepreneurial companies and creating a more robust innovation economy. These finance programs are a critical part of that initiative. Each financing program has been re-engineered to be market driven, fast and flexible – just like entrepreneurs need to be to succeed.

Find out more on the web

21st Century Research and Technology Fund: www.21fund.org

SBIR/STTR Grant Funding: www.in/gov/iedc/sbir

Venture Capital Investment tax credit: www.in.gov/iedc/incentives/venture

Capital Access Program: www.in.gov/ifa/programs/cap.html

Loan Guaranty Program: www.in.gov/ifa/programs/lgp.html

FINDING, HIRING AND INSPIRING High-Performanc EMPLOYEES

By Karl J. Ahlrichs, SPHR

You did it. Customers are writing checks. Your web site registers more daily orders than anyone thought possible. Your new business line rings all day long. You're officially in business – all on your own.

Now comes possibly the most important decision you must make in your freshly minted enterprise: you have to start hiring people (or hire more people) to grow your business.

In the early stages of a company, you, the entrepreneur, typically do it all. Soon, new business outstrips capacity. Sixty-hour work-weeks turn into 70, then 80. Unless a business plan is in place that adds employees at specific points of growth, you start burning out, customer service slips and the business fails to thrive.

And then the real damage is done – spent and exhausted, you doom the growth of the business by making "emergency hires." The applicants look good on paper and interview well, but they turn out to be bad hires. They are clock watchers. They don't share the entrepreneur's vision. They make mistakes and drive hard-won customers away. The entrepreneur often delays firing these unproductive sandbaggers, trying to "be nice" and somehow fix the problem.

Watch for disquieting trends in your operations. These may be profit numbers that are below what you expected; absentee numbers that are higher than you prefer; low productivity numbers; the occasional loss of key employees; and the difficulty of hiring good people. They are all connected, and they all suggest that you need to take special care of business in the hiring-and-firing category.

How do you avoid this treacherous entrepreneurial sandbar? Here are a few silver bullets to have around once you pull the trigger on hiring:

Hire the right people the first time. Get better data sooner and make better decisions.

If you pick up any can in a grocery, there is a standard label that is easily understood about what is inside. People don't have that label. In a normal interview, both parties are not telling the complete truth. "I'll be a great employee" versus "We offer a great place to work." Avoid family and friends unless they have exceptional skills and you feel you can objectively direct and discipline them.

Action: Ask questions targeted to the values, culture and operational behaviors of the organization. Listen carefully to the answers. Use valid pre-hire assessment tools to get beyond the "curb appeal" of first impressions. Use new application methods, such as the Hiring Smart process.

Focus on management of high performers, not just interaction.

Popular "fad book" strategies for improving retention say managers must increase communication with their employees and demonstrate appreciation for their employees' hard work. Good idea. As a long-time human-capital developer, I'm a big advocate for good

“Top performers – the 16 percent that are stars – produce 80 percent of the bottom line results.”

communication. What is often overlooked is this: Satisfied employees usually perceive their manager as being competent in managing operations, profits and execution.

If you already have employees on board, you have probably noticed that your top performers – the 16 percent that are stars – produce 80 percent of the bottom-line results. The remaining 20 percent of good results come from the 74 percent of employees that are average and poor performers. For your business to survive and grow, everyone must contribute – and contribute actively – to the bottom line.

My point is simple – if you want to stay in business, retaining all employees at any cost should not be your goal. Focus your retention effort on the people that are producing 80 percent of your results. Do whatever you can do to keep your best on board. I am not recommending that you ignore the rest – just focus your efforts in the short term on a very important part of your staff and inspire them. Don’t get caught in the trap of focusing just on hiring new employees and bailing out the leaking ship.

Action: High-quality people demand high-quality management, so train the bosses – including you as the chief entrepreneur – that lead the high performers, and you’ll attract more high performers, and they will stay longer.

Restructure jobs and develop career paths.

Don’t spend 74 percent of your time nurturing the 74 percent of the workers that are only producing 20 percent of the output. Stop torturing the good ones by ignoring them because they appear to be self-managing. Most companies say that they want high-caliber employees with enthusiasm and energy and yet assign them to unchallenging jobs that are not a good fit. Create career paths – even in organizations of less than 10 people - by systematically reviewing the career histories of your best people.

Action: Develop benchmarks of competence for your different positions, and use assessments and performance management to match your employees to those benchmarks. Look for similarities in what’s required for success. Do what you can to encourage development, career planning and movement within the organization. Employees need to know that as they continue to grow, so will their responsibilities (and their paychecks).

Leadership must be more employee-centered.

Customers are more informed and have forced businesses to change the way they sell. The coexistence of four generations in today's workforce requires a change in the way leaders lead. If you personally are 20-something, the 50-year-old professional you hire will likely possess substantially different goals, aspirations and even a different world-view than you. To advance your business, you must be more than a hard-working entrepreneur – you must become a leader.

Action: Take responsibility for creating opportunities for employees to apply their skills and knowledge. In a flexible workplace where employees have multiple choices regarding work assignments, compensation packages, the use of technology and ways to develop and learn new skills, the role of leaders must shift.

The old days were simpler. Leaders were traditionally responsible for providing work assignments, dictating how to complete those assignments and ensuring that employees did so correctly. Now, to be effective, leaders must change the entire focus of their jobs. In a workplace that assigns work based on getting the job done, leaders are responsible for creating opportunities for all generations to do the work in the way that best suits them.

A modern workplace includes individuals from all backgrounds, styles, cultures and generations. As leader, you support that learning by seeking opportunities for employees to apply their new skills and knowledge to their work.

In summary, having the right people onboard as you experience the challenges of growth is a requirement for real and profitable growth. Take your hires seriously, lead your people effectively and reap the rewards of having a real competitive advantage.

Karl J. Ahlrichs, SPHR, is a Human Resources Consultant with Professional Staff Management, a Human Resources solutions company headquartered in Indiana. PSM offers a complete range of services to assist with all of the people issues that come with a business, and can outsource some or all of the human resource function. Services include assessments, training, staff augmentation and PEO services. Ahlrichs is certified as a Senior Professional, Human Resources (SPHR), and has broad experience working with Indiana companies on people issues. You can reach Ahlrichs at 317.250.9081 or kahlrichs@psmin.com.

MANAGING 1-2-3

By Glenn Dunlap, Milestone Advisors, LLC

Many of today's start-up entrepreneurs have aspirations of achieving rapid business growth, but very few of them actually come close to anything rapid – except failure.

In fact, studies show that more than four out of five businesses won't survive their first five years. While some business owners might ask "Why is that?," a savvy entrepreneur should ask: "What can I do to make it past five years and achieve rapid growth?"

Develop Your Financial Model

If you want to achieve rapid growth, you have to plan for it. It's not as easy as proclaiming that you're a fast-growth company. It takes real effort, much of it coming before the first customer ever sees the product.

The first step to take to ensure success is to develop a detailed business plan. Start by focusing on the sales and marketing section of the plan, ultimately outlining the revenue-drivers for your business. Those revenue-drivers will be the basis for your financial model and will include:

- **Sales Channels.** How are you planning to sell your products, directly or through other channels? Do you lose control of the process at any point, possibly causing unforeseen delays?
- **The Length of Sales Cycle.** A key element that is always underestimated by entrepreneurs. Allow plenty of time to achieve the goals in your plan.
- **Packaging and Pricing.** It's vital to determine how your products or services will be priced and sold. Will you bundle products and services? How does your pricing compare to competitors? Another thing to consider for forecasting (as well as management) is whether you will organize by product line, department or geographic territories.
- **Management and Operations.** This section helps you identify elements on the "cost" side of the equation. You'll need to identify:
  - o **Cost of Goods Sold.** A savvy entrepreneur will need to identify everything that goes into making and delivering products.
  - o **Operating Expenses.** What are the monthly expenses that will be incurred today and as the business grows?
  - o **Capital Expenses.** Identify asset purchases required such as machinery and equipment, land, building, software and hardware, and so forth. Some of these expenses will be directly tied to sales volumes in dollars or units produced. Others might be tied to the number of employees in the business.
- **Finance and Accounting.** It always comes down to the money! Use the information developed in the previous sections to build projected financial statements and then model many different assumptions. For instance, you might examine what happens if sales increase or decrease by 50 percent. You might evaluate the sensitivity of your business to the pricing of your products or material costs.
- **Prepare for the Unexpected.** As good as your plan is, one thing is certain: It will be wrong. That's why a good model will allow you to look at many different scenarios to discuss and plan what you'll do under those circumstances.
- **Set Clear Goals.** Do you have top line goals for the business – like doubling every year? Do you want to be profitable within a period of time? Or maybe you expect a return on investment for you and your investors. Set clear goals and outline how you expect to achieve them.

"If you want to achieve rapid growth, you have to plan for it."

Secure the Needed Capital

One of the main reasons cited for business failure is not having enough capital. There's no way to anticipate every need that you'll have by planning, but you should be able to plan within a margin of error to minimize the potential of running out of cash.

A thorough forecast and model should show how much capital is needed. Since you've identified how much inventory, space, equipment, furniture and fixtures, and so on that you'll need, you will be able to clearly articulate capital needs. Furthermore, you will be able to forecast when you should need the capital.

Once you know the amount and timing of your capital needs, you should be able to determine what kind of capital is most appropriate, whether debt, equity or some combination of the two. Here are some things to consider about capital structure:

- **Owner's Injection.** This is your most likely source of funding; you should plan to start here. Your injection can come from cash, home equity or credit cards. One thing is certain-outside lenders and investors want your "skin" in the game.
- **Friends and Family.** The next sources to consider are friends and family. Many will make the investment based on knowing you – not on the merit of the business or their understanding of the business. Don't take this as an open invitation to borrow recklessly. I've known many an entrepreneur who dreaded every holiday because they had to face friends and family who lost money in their business!
- **Venture Capital.** Although there are VC funds that will invest in businesses of many different stages, most will require further validation of the product and marketplace before investing.
- **Bank Debt.** This not a likely source of funding for early stage, high-growth companies. As the business matures, the possibility of obtaining a permanent, working capital loan to fund equipment purchases or a line of credit to fund inventory and receivables increases. Bank loans require current payments on interest or principal and interest, which can be a hindrance to a company's cash flow. In addition, owners should be willing to personally guarantee the loans in the early years.

Manage the Numbers

As you build the financial model, develop it with the intent of making it a management tool. You will have identified the key numbers that you need to measure and watch to successfully manage your business.

- **Sales Pipeline.** Your sales goals should have defined the formula to get to a sale. It might have been something like 20 calls will net 10 appointments. From those appointments you will get five proposals and from those maybe one new customer. Whatever the expected formula, track your actual progress. Are the calls being made? What's the success ratio? Is the sales cycle longer or shorter than expected?
- **Manage the Backlog.** Now you're selling. Great! However, over-extending your capacity can lead to late delivery and disgruntled customers. Understand and manage capacity based on your management and operations plans.
- **Are You Meeting Performance Goals?** Not having performance goals means that you don't know where you are going, and you'll have a hard time measuring successful progress or growth.

You may need to review your accounting system, procedures and reports to insure that you are receiving (or will receive) the data that you need to manage the business. Many businesses start with an accounting system or a set of procedures that are fine for them at that time, but outgrow them and don't recognize it soon enough.

Hire the right people to take care of the details. Pay attention to the key things that you need to know. You likely didn't start your business to become an accountant, so don't fall into the trap of trying to do it all. Let the right people take care of the numbers and details and you pay attention to what they are telling you.

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HOW TO PLAN FOR AND ACHIEVE HIGH GROWTH, continued from page 35

Here are some financial indicators that most businesses need to watch:

- **Accounts Receivable.** Achieving sales is one thing; actually getting paid and having adequate money in the bank is something else entirely. Entrepreneurs should be checking their A/R accounts regularly and making those unpleasant calls to collect when receivables start going past 30 days.
- **Inventory.** Raw materials or product parts cost money both to buy and to store. Having too much inventory, whether component parts or finished products, ties up capital you can use for other important growth-building activities, like marketing or hiring senior staff. Having too little inventory can cause delays or lost sales. This is a careful balance that you'll need to learn.
- **Retained Earnings.** Many business owners are coached to minimize tax. While that should always be a consideration, owners also should consider their intent to grow.

Profitable businesses are always easier to fund than their money-losing counterparts, especially if the owners haven't bled all of the cash out for personal use. Owners will have to weigh out the cost of acquiring growth capital from other sources, most likely equity, if they have depleted the equity side of the balance sheet.

Managing for growth and profitability is far more complex than merely checking to see whether the numbers in your checkbook are black. Add fiscal muscle to your enterprise by setting measurable metrics and managing against them for sustained and real growth.

Glenn Dunlap has spent his entire professional career working in/with entrepreneurial, high-growth companies. As a business advisor and as a small business executive, Dunlap has developed skills to assist entrepreneurs with issues related to strategic and business planning, building financial projections, determining the appropriate capital structure and raising capital. For the three years prior to starting Milestone, he was a business advisor for Concord Partners. There he provided business advice and part-time CFO services to emerging market companies. Prior experience includes directing the Small Business Development Centers in Columbus and Indianapolis, Ind. Dunlap consulted with hundreds of companies on formation and early-stage development, as well as worked with companies to develop growth strategies. He was also the Operations Manager of a high-growth metal stamping and light assembly business in Columbus, Ind. Dunlap is a 1991 graduate of Ball State University, with a major in Entrepreneurship and Small Business Management and a minor in Music Theory.

Growing Our Own

By James Eifert,
President and CEO,
Indiana Venture Center

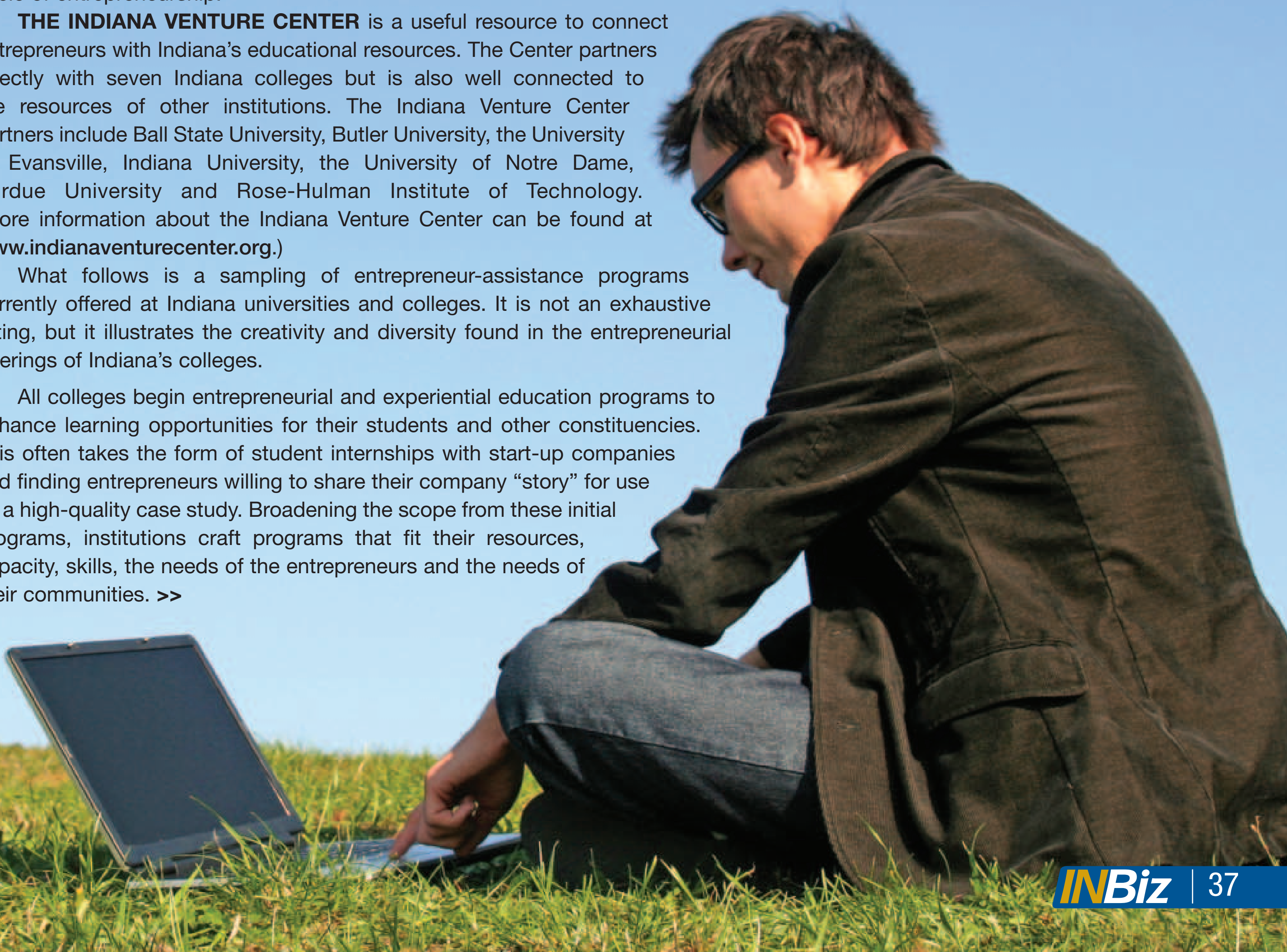
While many states lack educational and tangible assistance for entrepreneurs, Indiana is fortunate to have numerous high-caliber programs in its colleges and universities intended to help nurture and cultivate entrepreneurial spirit.

Indiana's educational institutions provide intellectual research, library resources, faculty expertise, access to market research, technological skills and an eager and resourceful group of students (both undergraduate and graduate) who can provide hands-on, practical support to emerging and established businesses. All of this is done with the mutually beneficial goals of providing experiential learning opportunities for students, connecting students to the Indiana business community, and providing career opportunities to keep intellectual capital in Indiana and perpetuate a more robust cycle of entrepreneurship.

THE INDIANA VENTURE CENTER is a useful resource to connect entrepreneurs with Indiana's educational resources. The Center partners directly with seven Indiana colleges but is also well connected to the resources of other institutions. The Indiana Venture Center partners include Ball State University, Butler University, the University of Evansville, Indiana University, the University of Notre Dame, Purdue University and Rose-Hulman Institute of Technology. (More information about the Indiana Venture Center can be found at **www.indianaventurecenter.org**.)

What follows is a sampling of entrepreneur-assistance programs currently offered at Indiana universities and colleges. It is not an exhaustive listing, but it illustrates the creativity and diversity found in the entrepreneurial offerings of Indiana's colleges.

All colleges begin entrepreneurial and experiential education programs to enhance learning opportunities for their students and other constituencies. This often takes the form of student internships with start-up companies and finding entrepreneurs willing to share their company "story" for use as a high-quality case study. Broadening the scope from these initial programs, institutions craft programs that fit their resources, capacity, skills, the needs of the entrepreneurs and the needs of their communities. **>>**



NORTHERN INDIANA

Goshen College is making a difference for some of the smaller communities that often do not have access to large city resources by partnering with Elkhart County chambers of commerce to offer entrepreneur programs. The college provides the consulting resources to the entrepreneurs through its Entrepreneurship Learning Center. The Center for Business and Entrepreneurial Education (CBEE) also offers unique programming for family businesses and roundtables for succession planning.

The Center for Research and Innovation (CRI) at **Taylor University** traces its roots to the Science Research Training Program which has involved faculty in research, industrial relationships and student mentoring since the 1950s. The CRI strives to foster a spirit of innovation through a comprehensive entity that provides the resources necessary for faculty and students to pursue their entrepreneurial dreams. Resources range from facilities and equipment to seed funding and administrative and expert support.

The Center for Research and Innovation is divided into three branches:

- **The Research Training Program** helps faculty and students excel in theoretical, experimental and applied research in both science and the humanities
- **The Innovative Enterprise Program** helps incubate ideas into new products and new ventures, and
- **The Pathways Program** helps form partnerships linking students with area businesses.

The **University of Notre Dame**, located in South Bend, has a large national and international presence. Programs offered through Notre Dame's Gigot Center for Entrepreneurial Studies at the Mendoza College of Business influence and affect the local community as well as offer opportunity for global interaction. The Center's programs promote entrepreneurship: innovation, vision, imagination, passion and connection. By partnering with local companies and alumni from around the globe, entrepreneurs and companies gain access to some of the finest research and tools available.

The Gigot Center offers many different programs to educate and assist Notre Dame related entrepreneurs. Distinctive and unusual Center programs include:

- **The Dorothy Dolphin Notre Dame Family Business Plan Competition** promotes and strengthens the development of strategic business plans in family businesses. Plans will normally be strategic, focusing on business continuity and family management succession/transition, ownership or family operational control issues.
- **The IrishAngels**, a group of Notre Dame alumni and friends whose mission is to create a forum for entrepreneurial-minded members of the Notre Dame family for networking and to foster new business opportunities, and to support the work of the Mendoza College of Business and the Gigot Center for Entrepreneurial Studies by providing Notre Dame students with mentoring and networking,
- In addition to the programs offered through the Mendoza College of Business, the College of Engineering has also initiated entrepreneurial programs and supports student efforts through its **Four Horsemen Fund**. Notre Dame is also collaborating with the South Bend community to establish the Innovation Park at Notre Dame to stimulate and support university research and commercialization efforts and serve the needs of start-up companies.

SOUTHERN INDIANA

The **University of Evansville** encourages and supports entrepreneurship through its business competition, the Evansville New Venture Creation Competition (ENVCC), sponsored by The Schroeder Family School of Business Administration. Teams of undergraduate students present their ideas, demonstrate the characteristics that will make their business successful, and exhibit their need for funding to a board of investors who evaluate the merits of the plans.

The mission of the ENVCC is not only to identify and encourage entrepreneurship in the Evansville area that will result in business development, but to provide a positive educational experience for students and expose their business ideas to venture capitalists, angel investors and business executives. In addition to significant cash prizes, the Audience Favorite Winners have the opportunity to be mentored through Old National Bank, the Midwest Venture Club and the Metropolitan Evansville Chamber of Commerce's Small Business Development Center (SBDC). Additionally, the first place winner is eligible to be a presenter at a Midwest Venture Club meeting.

EASTERN INDIANA

Created through a partnership between **Anderson University**'s Falls School of Business and the City of Anderson, the **Flagship Enterprise Center** serves as a specialized small-business incubator and early-business accelerator, with an emphasis on providing educational opportunities as well as fostering emerging manufacturing and electronic technology.

Among the many services of the Flagship Enterprise Center are access to university researchers and scientists; ongoing contact with business management consulting; student mentoring opportunities for research and development support; and access to state of the art telecommunications. Through the Client Support Program, the Flagship Enterprise Center helps emerging companies become independently viable.

The Miller College of Business at **Ball State University** works with Indiana entrepreneurs through its Entrepreneurship Center, which offers an Entrepreneurial Consulting Course. Through this immersive learning process, entrepreneurship students tackle real work problems and assist entrepreneurs with tough decisions.

Businesses selected to participate in the program are assigned a team of students to assist with their particular business challenge.

Student consulting teams work on projects associated with production, marketing, market analysis, personnel, finance, e-commerce and information systems.

The Center for Media Design is another important program at Ball State and one that is essentially unique. The Center is a research and development facility focused on the creation, testing and practical application of digital technologies for business, classroom, home and community. These efforts are being accomplished through the Digital Exchange initiative – a program that explores how digital technology can innovatively and continuously promote the exchange of information in both educational and commercial environments.

One of Indiana University's regional campuses, **Indiana University East**, is reaching out into the community of Richmond through a student-run local TV show called "In Your Business." The show features local business owners who discuss how and why they went into business, and the risks, rewards and hurdles that they encountered in staring a new business. Students learn from the entrepreneurs' stories as well as from filming and editing. The entrepreneurs say that it makes a difference in their sales and gives them added visibility within their community.

WESTERN INDIANA

Entrepreneurship education at **Rose-Hulman Institute of Technology** has been developing for more than 20 years, with a particular emphasis on innovators and entrepreneurs pursuing their educations in engineering, science and mathematics.

A differentiating element for Rose-Hulman is that early in a Rose-Hulman student's educational career, students can get exposure to innovation and opportunity thanks to Engenius Solutions, a program that uses idea contests, project development and a series of expert speakers to foster the entrepreneurial spirit.

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Rose-Hulman Ventures (RHV) has enabled students to work in paid internships on innovation-stage projects that focus on concept generation, prototyping, design and testing. Small and large companies depend on the quality of the RHV work for their business success. About 80 students work part-time during the academic year and full-time during the summer and are exposed to entrepreneurial activities.

The newest entrepreneurial element at Rose-Hulman is the Kern Entrepreneurship and Engineering Network grant to foster entrepreneurship across the curriculum. This program calls upon successful examples of entrepreneurship to enhance the speaker series, develop more student club activities, provide workshops, and generate course modules for everything from engineering to humanities courses. Their goal is to repeatedly reinforce the entrepreneurial mindset.

CENTRAL INDIANA

The **University of Indianapolis**' School of Business is accentuating the university's role in helping to facilitate Indiana economic development by developing a technology commercialization center that enables inventors, entrepreneurs and spin-offs from the state's research universities to apply for Small Business Innovation Research and technology grants: federal funds can be decisive in enabling small emerging companies to demonstrate their abilities without dilution of owners/shareholders equity. The School of Business is also helping the workforce-development priorities and encouraging the emergence of promising new small companies by launching a supply-chain initiative on behalf of Indiana's transportation, logistics and supply-chain companies.

Plans are currently underway to implement an innovative curriculum in entrepreneurship that prioritizes students' projects and real world experience. The newly established Student Business Leadership Academy and Students in Free Enterprise are developing their students' capability to build and strengthen entrepreneurial business.

The Butler Business Accelerator at **Butler University** involves both undergraduate and graduate students with entrepreneurial companies in Indiana that have been in business at least five years, have $5 to $50 million in annual sales, and are poised for growth. Select companies will work with a team of professionals, faculty and students who engage them in a four-step process to improve competitiveness and profitability. A $2 million investment fund operated by a team of faculty and students is available to clients who can apply for these funds to implement growth strategies recommended by the consulting teams, such as marketing or advertising campaigns, new equipment or information technology.

Purdue University offers a wide variety of entrepreneurship and innovation programs and resources to aid Hoosier businesses and entrepreneurs.

The Purdue Research Park is home to the largest university-affiliated, state-of-the-art business incubator in the United States. More than 100 businesses are located on the park's nearly 600 acres in West Lafayette. Firms in the park benefit from services for business-growth acceleration with the Purdue Gateways Program, human resources and communications and marketing with Technology Roadshows. The Park has received many awards, including designation in 2004 as the Outstanding University Research Park by the Association of University Research Parks.

Purdue's Office of Technology Commercialization supports start-up companies that were founded on Purdue technology, and holds many entrepreneurship forums through their outreach program along with actively marketing and licensing Purdue University intellectual property.

The New Ventures Team is an integrated extension program, staffed by Purdue specialists and county educators, offers consultation to entrepreneurs by evaluating new business venture ideas. Purdue also hosts the Opportunity for Indiana Business Plan Competitions, which are open to Indiana entrepreneurs and those desiring to establish their new or expanding business entity in Indiana. Participants compete for $50,000 in prizes.

The Purdue Life Sciences Business Plan Competition offers students from across the country another chance for entrepreneurial competition in West Lafayette. This competition is focused on breakthrough life-science technologies, where participants compete for substantial cash prizes that can be used to further their research or embark on the commercialization of their inventions.

Indiana University's Johnson Center for Entrepreneurship and Innovation has developed one of the world's largest entrepreneurship faculties with world-recognized entrepreneurship-thought leaders. The Johnson Center offers comprehensive entrepreneurship curricula at the Ph.D., MBA and undergraduate levels.

The Johnson Center is dedicated to establishing entrepreneurial experiences for students and expanding linkages between Indiana University and the enterprising business community. One way of establishing this is the Indiana University Entrepreneurial Awards of Distinction, which are given out annually to honor growth, entrepreneurial spirit and innovation in emerging and established entrepreneurial companies.

The Johnson Center for Entrepreneurship's Entrepreneurial Innovations Laboratory (EIL) was established to focus Kelley School of Business resources to support the commercialization of life-science and other high-potential research technologies. Sources for this technology include Indiana University faculty as well as other research organizations in the state. Their primary objective is to bridge the gap between scientific research and business opportunities – by conducting market and competitive analyses, recommending marketing tactics, developing detailed operating plans, and proposing financing strategies.

In addition to the EIL and the Entrepreneurial Distinction

Awards, the Johnson Center for Entrepreneurship and Innovation's Entrepreneurship Law Clinic (ELC) is a joint program of the Indiana University School of Law and the Kelley School of Business. The ELC is designed to be a capstone experience for JD/MBA candidates interested in business and transactional practice. The ELC seeks to expose students to the practical legal and business realities of start-up and early stage businesses, and to provide opportunities to actively participate in the legal and business challenges facing such companies.

Indiana has a wealth of university and college resources to support the entrepreneurial community. In addition, the Indiana Venture Center remains as a central place where entrepreneurs can come to receive guidance and support. We will make every effort to connect you to Indiana's outstanding network of college or university programs.

Indiana Higher Education Resources

University of Notre Dame
The Gigot Center for Entrepreneurial Studies
Director: Jim Davis
Davis.31@nd.edu
www.nd.edu/~entrep/businessIncubator.html
(574) 631-8614

Indiana University
The Johnson Center for Entrepreneurship and Innovation
Exec. Director: Dr. Donald F. Kuratko
JCEI@indiana.edu
http://kelley.iu.edu/JCEI
(812) 855-8100

Purdue University
Purdue Research Park:
www.purdueresearchpark.com

Office of Technology Commercialization:
www.prf.org/otc

New Ventures Team:
www.agecon.purdue.edu/newventures

Opportunity for Indiana Business Plan Competitions:
www.purdue.edu/dp/entrepreneurship

Purdue Life Sciences Business Plan Competition:
www.purdue.edu/dp/entrepreneurship

Discovery Park Special Projects
Manager: George B. Adams III, Ph.D
(765) 494-2698

Anderson University
The Flagship Enterprise Center
Executive Director: Art Patterson
director@flagshipenterprise.org
www.flagshipenterprise.org
(765) 622-0100

Ball State University
Ball State University's Miller College of Business
Director of the Entrepreneurship Center and Associate Professor of Entrepreneurship: Larry Cox
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Engineering Management
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James R. Eifert received his BS from the University of Notre Dame (1965) and MS (1967) and Ph.D. (1973) from Ohio State University in metallurgical engineering. He served with the U.S. Navy Seabees as an officer in the Civil Engineer Corps (1967-69). From 1972 until 2005, he was a faculty member at Rose-Hulman Institute of Technology, where for 17 years he served as Vice President for Academic Affairs and Dean of the Faculty. In 1997, as part of an extended leave from Rose-Hulman, he accepted a position as Visiting Vice President at Kanazawa Institute of Technology, Japan's largest private technological university. Upon his return to the U.S. in 1998, Eifert served the F.W. Olin Foundation as a full-time academic consultant as it designed the Franklin W. Olin College of Engineering. Eifert returned to active involvement at Rose-Hulman in 1999 as President of Rose-Hulman Ventures, a practice-based educational, technology development and economic development component of Rose-Hulman eventually funded by $54.3 million in grants from the Lilly Endowment, Inc. Eifert was a principal author of the proposal to establish and expand Rose-Hulman Ventures. In 2005, Eifert resigned from Rose-Hulman to pursue a consulting career in the area of innovation-based economic development with special emphasis on university/community interactions. In August 2006, he was appointed as President of the Indiana Venture Center. Eifert served two years as a Board member for Indiana's 21st Century Research and Technology Fund and has been honored as a recipient of the Ralph A. Teetor Award of the Society of Automotive Engineers and a winner of the Cyberstar Award of of the Indiana Information Technology Association (now Techpoint). He was also named to the Indiana Business Journal list of 50 Top Technologists in Indiana; as a Sagamore of the Wabash by Governor Kernan of Indiana; and as a Distinguished Alumnus of Chaminade-Julienne High School in Dayton, Ohio.

David M. Shelby

VICE PRESIDENT OF FINANCE AND BUSINESS OPERATIONS, GRIFFIN ANALYTICAL TECHNOLOGIES, LLC

"We have been fortunate to tap into several different types of financing for Griffin. I like to look at a 'bricks and mortar' analogy. The bricks in this picture refer to federal research and development grants which are very restrictive with specific deliverables that meet their objectives. The mortar that connects all of this together is the 21st Century Funding and investments we raise. The Venture Capital Investment Tax Credit provides incentive for Indiana investors to invest in Indiana's next generation technology companies such as Griffin. These two programs in particular have the flexibility to fill in the gaps for funding business growth in Indiana."

Sonny Kirkley

CO-FOUNDER, CHAIRMAN AND CEO, INFORMATION IN PLACE, INC.

"The Indiana 21st Century Research and Technology Fund and the SBDC have been instrumental in our success and growth as a business. The SBDC was the first organization we contacted when we began incorporation of our business. They have continuously advised us and actively helped us plan as we have grown for the past eight years. The 21st Century Fund has provided the working capital needed to expand our business in ways we could not have done otherwise. While we have secured over $3.5 million in federal research funding, those awards did not provide the capital needed to take a rough prototype from concept to commercial product. The state's support has given us the ability to hire critical staff and to overcome technical barriers inherent in turning R&D prototypes into commercial products. With their help, we are poised for significant growth over the next three years."

SPOTLIGHT: INDIANA ENTREPRENEURS

Ed Morris,

PRESIDENT, MORRIS INNOVATIVE RESEARCH

"Today it is difficult for an early stage company like ours to introduce a new medical technology into a heavily regulated industry. Most of these types of opportunities only become available to companies that are well-established or located on one of the coasts where there is available capital to support the risk of a clinical trial and the launch of a new technology. Because of the 21st Century Fund and the support of the SBDC, we have been able to stay in Indiana and continue to provide jobs for people in this area. These groups have allowed us to continue research on alternative materials in order to optimize our designs. This refinement takes people, materials and equipment. We are proud to be supported by these groups and look forward to their continuing support as we move towards the end of the development cycle and into commercialization of this new technology."

Navigating the Murky Waters of Private Fundraising

By William Maynie, Associate, Ice Miller, LLP

At one point or another, most companies face the task of raising private capital from outside investors. In today's highly-regulated world, fundraising is not without its challenges. Companies not only have the business challenge of identifying and coming to mutually-agreeable investment terms with prospective investors but, once identified, companies have the legal challenge of communicating with those prospective investors in a manner that does not run afoul of various securities regulations.

Background

Certain rules created by the Securities Exchange Commission (SEC) under the Securities Act of 1933, as amended (the Act), regulate the manner in which securities that will not be publicly registered pursuant to the Act may be marketed to potential investors. With limited exceptions, these rules generally provide that an issuer, or any person acting on behalf of an issuer, must not offer or sell securities by any form of "general solicitation" (or "general advertising") including, but not limited to: any advertisement, article or other communication published in a newspaper, magazine or similar media or broadcast over television or radio; and any seminar or meeting whose attendees have been invited by any general solicitation.

Limited Guidance

Unfortunately, the Act does not define "general solicitation," so the determination of whether a communication constitutes general solicitation is fact-sensitive and requires an individualized investigation. The SEC has provided some guidance, however. For example, according to the SEC, the presence of a substantial, pre-existing relationship between an issuer and a potential investor is strong evidence that communications with that potential investor do not amount to a general solicitation or general advertisement. In addition, the SEC has indicated that it would not take enforcement action against issuers for any of the following actions:

- Submitting a generic questionnaire to investors during the fundraising period, provided the questionnaire did not specify or promote a particular investment but simply questioned the suitability of potential investors.
- Displaying information on the Internet, provided that the information was password-protected and was made available to potential investors who had already been determined by the issuer to qualify as accredited or sophisticated investors. (A caveat: regulation in this area is still evolving, and issuers should be careful not to assume that the SEC will continue to maintain a liberal attitude toward Internet solicitation.)
- Speaking to the media so long as the discussion is generic in nature and does not reference any investment currently offered or contemplated.
- Simply discussing a new company or new product as long as no current funding initiatives or historical investment results are discussed.

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On the other hand, the SEC has indicated that the following actions are not permitted:

- Mass-mailings discussing fundraising efforts or the offering of securities.
- Speaking with the media about fundraising or investment matters (either about current fundraising efforts or about the success or attractive return of previous investments, in an effort to "condition the market").
- Print, radio and television advertisements regarding funding or investment matters.

Implications

There are a range of consequences associated with non-compliance with the general solicitation rules of the Act, including SEC cease-and-desist orders, monetary fines and loss of the exemption being used to facilitate the offering without public registration. Because public registration of securities is not possible (or desired) for many private companies, the loss of the registration exemption is perhaps the most troublesome outcome. If unregistered securities are sold by a company that has not complied with the requirements of the registration exemption, the investment transaction is voidable by the investor and any investment proceeds received by that company in connection with the sale of those securities are subject to forfeiture by the company.

If a company has engaged in a general solicitation, that company should consider delaying its fundraising efforts for a "cooling-off" period of no less than six months following the solicitation, during which time the company would not make any offering of securities or accept any capital through the sale of such securities. It has been generally accepted that this period of time is sufficient to separate the "general advertisement" of the offering from the closing of the offering such that an investor would not reasonably be expected to have learned of the investment opportunity through the general advertisement.

To avoid the general solicitation pitfalls of the Act, issuers of securities (and agents acting on their behalf) should ensure that any communication possessing the potential to reach parties with whom the issuer does not have a "pre-existing relationship" remains generic, and should not include any specific details regarding current offerings, historical investments or other fundraising initiatives. Furthermore, any communication made by issuers, even if generic, must not give the "appearance" of being a general solicitation of investors.

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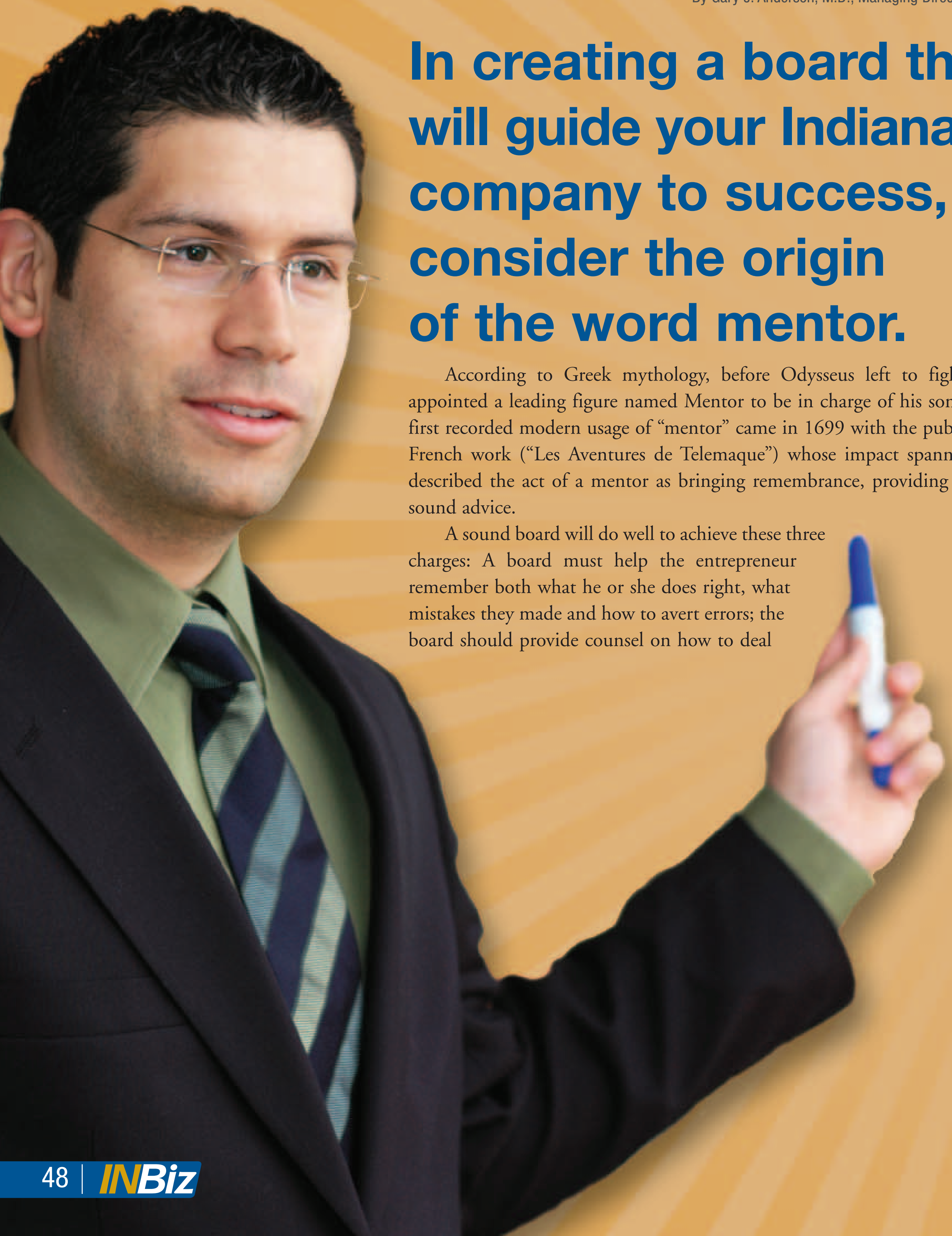
Creating and Managing a Board

By Gary J. Anderson, M.D., Managing Director Emeritus, TL Ventures



In creating a board that will guide your Indiana-based company to success, consider the origin of the word mentor.

According to Greek mythology, before Odysseus left to fight the Trojan War, he appointed a leading figure named Mentor to be in charge of his son and of his palace. The first recorded modern usage of "mentor" came in 1699 with the publishing of an influential French work ("Les Aventures de Telemaque") whose impact spanned decades. That work described the act of a mentor as bringing remembrance, providing counsel and producing sound advice.

A sound board will do well to achieve these three charges: A board must help the entrepreneur remember both what he or she does right, what mistakes they made and how to avert errors; the board should provide counsel on how to deal with emerging issues; and finally, the board should be able to provide sound advice on how to grow the new company.

In the long and short of it, a good board will likely provide exceptional value. A poorly selected board will probably distract the entrepreneur and slow down growth.

Selecting and recruiting initial board members thus represents a decisive and vital role of the emerging entrepreneur. While prospective board members are expected to complete due diligence before accepting an invitation to join a board, the same is true for the entrepreneur. Sometimes early success and the emerging reputation of a hot new start-up will result in multiple investors seeking out an entrepreneur.

This may seem like a happy situation, but there exist major potential pitfalls. “My money’s good, isn’t it?” the prospective investor may allude. My advice in these cases is that the investor’s money may be good, but the investor is not.

At the risk of sounding harsh, I often find that prospective investors and future board members can be placed in three broad categories: Real-value creators; mild-to-annoying distracters; and well-meaning but, well… people who aren’t the brightest bulbs of the lot.

In the early stages of a company, an effective board of directors or advisory council should play a greater role than just the “fiduciary” oversight function it may perform in later years. In my career, I have often quoted this truism: No company is ever better than its people.

Therefore, the first role of a board for a rapidly growing start-up is to help manage the entrepreneur’s growth – which includes the hiring and retaining of people as well as managing the company’s financial assets. Most entrepreneurs – whether in Indiana or elsewhere – delight and excel in creating new ideas. They often fail miserably in selecting the right people who will create value and make money.

Whether your new company has a formal board of directors or a “kitchen cabinet” of advisors, the experience and quality of your board can help you avoid typical and critical errors. Interviewing candidates to match the needs of a rapidly growing business is not an easy job and the selection process is challenging. For example, selecting and hiring a qualified CFO represents no easy task. Some CFOs manage for stability. Others may manage for growth opportunities. Which approach is best for your new start-up?

In this instance, two or three heads are certainly better than one. The founding entrepreneur may be time-constrained, overworked and perhaps inexperienced in hiring a key executive – three circumstances that are not exactly the best condition for selecting a CFO. Experienced board members, who have likely already been through this very process on one or more occasions, can lend wise counsel.

Second, a good board helps the entrepreneur understand the differences and – more importantly – the consequences of what I call "dumb money" versus "smart money."

Entrepreneurs are always looking for money, and a good board will help them find it. In the case of what I call "dumb money," valuations of the company are often high, and the investor simply writes a check and disappears to await the return on investment. There are plenty of super-rich people like this, and the entrepreneur has a choice if they are being pursued by financial suitors. But the entrepreneur needs to realize that this type of investor never contributes anything to the start-up beyond the check, which is why I call it "dumb money."

If the entrepreneur doesn't have a good board or kitchen cabinet, they have to figure out what to do with this "dumb money" all by themselves. That can be a good thing, or it can be disastrous.

Put simply, lots of investment capital does not make a company: Creating value, revenues and profits does! All investors, but often the dumb money investors, have contributed nothing to the success of the company and then look for returns on their investment as if an automatic process. Disappoint these investors over long periods of time, and the trips to the woodshed aren't fun.

"Smart money" investors represent the opposite situation. The investor likes what he or she is seeing, but they like to know what their money is up to and maybe even offer advice on how to grow it. Investors with "smart money" want to do more than merely write a check. They want to be involved. The point is, "smart money" investors can make up for whatever equity dilution their investment may cause. They bring value to the start-up in different ways.

In choosing equity investors, the entrepreneur needs to choose carefully. Dumb money investors bring the illusion of fiscal freedom, when in reality they may be bringing sub-optimization of resources. Smart money investors may be an initial pain because they want a hand in decision-making and strategy development, but their interest lies primarily in real and solid growth. They will bring more to the table than cash. As is often said, it's not the pen or check that makes a difference in an early start-up company. It's the savvy investor at the end of the pen.

> "Lots of investment capital does not make a company."

Consider this plain example of comparison: If your start-up is focused on software development, who do you want at the end of the pen? A third-generation lucky inheritor of trust funds who is looking for some place to park his money, or somebody like Bill Gates?

A third mentoring duty of a good board is to drive the entrepreneur's network. The critical value of a working board that is building a corporate network is hard to over-estimate.

An active and savvy board can:

- Help attract top - performing employees
- Quickly open and build critical banking relationships
- Identify and mold key alliances
- Provide sales leads for major new customers

A marquee and well-connected board member will bring a gold-plated Rolodex (or Outlook Contacts file) that needs to be well-plumbed by the entrepreneur/CEO. The board member can make introductions and smooth out the rough edges of the newly minted CEO/entrepreneur.

An entrepreneur may be forced to deal with a rookie loan officer in securing a line of credit. An experienced board member can call the bank's president directly and lend his or her credence to secure that line of credit overnight.

The same goes for sales leads. A CEO/entrepreneur with no connections may have to start with a formless voice at a prospect's purchasing department to try and initiate a sale. A connected board member can call the division president and ask for a direct introduction to the new CEO/entrepreneur.

A fourth duty of mentoring as a board member falls within the realm of passing on lessons learned from valuable experience. Fused with new capital and the accolades of peers, the new CEO/entrepreneur can easily and conveniently forget all of his her mistakes. It's a truism of business that one cannot truly succeed until you also fail. The trick is to remember what led up to or caused the failure and not repeat it. Sounds easy, but it's not.

Further, as successes mount up, new ground will be broken. What happens if the start-up breaks out and becomes a recognized star that everyone wants a piece of? Massive and runaway growth remains the dream of many, but when it happens, managing this type of growth represents another matter entirely.

If a start-up goes from \$500,000 in annual revenues to \$5 million or even \$50 million (it has happened) in five or so years, who determines executive compensation? What values and performance expectations – soft or hard – make up the parameters for rewarding key players? How does the business plan change to sustain recent growth and plan for more?

A CEO/entrepreneur lucky enough to achieve this will also suddenly find that he or she now has 1,000 or more new best friends, all dispensing sage-like wisdom. My advice is: "Don't take any advice," except from those who are the trusted mentors. A good board with experienced directors helps steady the ship. Amen.

Usually about this time, the CEO/entrepreneur sees that the securities market could potentially provide considerably more capital for growth and expansion. Consequently, visions of an IPO start dancing in peoples' heads. Having a board whose members have already gone through an IPO represents a far more efficient resource than a team of securities lawyers billing out at $300 an hour or investment bankers ready for a hundred lunches. These people are indispensable in the IPO/sale environment but guidance and experience of the board is a necessary navigation tool.

The conclusion? Large or small, a highly functioning, savvy and engaged board of directors represents a critical strategic asset for any emerging entrepreneur. If a company is only as good as its people, its board has to be among the best.

"A good board helps the entrepreneur understand the differences and – more importantly – the consequences of what I call 'dumb money' versus 'smart money.' "

Before joining TL Ventures in 1990, **Gary J. Anderson** was Executive Vice President at Safeguard Scientifics, Inc., where he guided corporate technology strategy and several successful information-technology portfolio companies for five years. Anderson has also served as Chief Executive Officer of several software and telecommunications companies and as a consultant or advisor to Hewlett-Packard Corporation, Motorola and other Fortune 500 companies. Prior to joining Safeguard Scientifics, Inc., Anderson practiced cardiology and was a professor of medicine, physiology and biophysics and former associate dean at Hahnemann University School of Medicine. He has a faculty appointment in the Johnson Center for Entrepreneurialism and Innovation and is on the Advisory Boards of the Kelley School of Business, The Jacob's School of Music and the School of Medicine of Indiana University.

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aligned entrepreneurial community and culture in Indiana. This attitude will also be extended between the centers themselves, improving interaction so that the partners and resources of one regional SBDC are not just local assets, but valuable partners to all Hoosier entrepreneurs.

Finally, the centers will also engage the help of and cooperate with other business-development resources, reducing duplication of services and leveraging assets to adopt and provide assistance based upon best practices. These strategic alliances will help develop relevant and useful products and services for the start-up market and for businesses that have entered the next stage of development.

We've Got What You Need

The adoption of a new needs-assessment tool will serve to identify each entrepreneur's particular needs, strengths and weaknesses, enabling the right connection to be made to keep their business moving. This kind of strategic, targeted assistance gives entrepreneurs and start-up businesses a better chance of survival than those who try to go it alone.

Improved assessment will also help our center directors, advisors and consultants focus on each customer's needs and identify those businesses with high-growth potential. The centers will endeavor to link funding programs with counseling or other educational programs when appropriate. Services to be provided will depend upon the individual entrepreneur's needs. By identifying those needs, the centers will align training, education and other assets into a continuous learning system.

The centers will also coordinate access to capital and funding on a scale larger than in the past. "Connecting the dots" of an expanded network state-wide will broaden access to capital by expanding collaboration with private-sector entities and increase the funding sources available to small businesses. At the same time, the centers will help generate awareness of other federal, state and local financing programs through **www.INBizPortal.com**, hopefully preventing entrepreneurs from ever saying, "I wish I'd known about this program when I was getting started."

STAGE TWO: PeerSpectives

Existing businesses will find valuable services through the network as well, but they will also find exciting new resources through each other. Indiana's SBDCs have partnered with the Edward Lowe Foundation to offer the PeerSpectives Roundtable System, a high-impact peer CEO network.

PeerSpectives represents a developmental opportunity for entrepreneurial companies already established to build new peer networks for growth. Based on a roundtable approach, the model enables leaders from small Indiana businesses to share ideas and experiences in a collaborative and non-competing environment, according to Mark Lange, executive director of the Lowe Foundation.

"A great deal of research shows that many entrepreneurs learn best from peer examples," said Penny Lewondowsky, director of Entrepreneurship Development for Lowe. "PeerSpectives represents an innovative form of peer learning that fosters better communication within companies and also serves as a community-building tool."

While using roundtables of community leaders is no new concept, PeerSpectives promotes a high degree of accountability and only permits participants to speak from their personal experience, not give unsolicited advice. Table participants don't get overwhelmed with unsolicited advice because of the format.

"This is a great way to extend what the Indiana SBDCs are already doing," said Lewondowsky. "It's a good way to improve collaboration between companies and communities."

New chapters of PeerSpectives groups are already meeting, including active tables in Bloomington and Kokomo. The PeerSpectives meetings are guided by a trained facilitator, who keeps the confidential discussion balanced and on track so all members benefit.

The Entrepreneurial Development System

The INBiz Initiative will develop an entirely new culture through the centers, enabling entrepreneurs to see the big picture, both where they are and what's around them. Culture, Capital, Networks, Learning, Infrastructure and Government will serve as the six interrelated pillars of the initiative.

The INBiz Initiative will focus intensely on entrepreneurs themselves, as the goal of the SBDC network is to serve small business and enable the active development of entrepreneurs into seasoned professionals, not just business-plan developers.

The network is already taking steps to move forward. Purdue University–Calumet, home to its own Entrepreneurship Center, became the host of the Northwest Indiana SBDC in February. Ivy Tech will soon become the host of the East Central Indiana SBDC, relocating from Richmond to Muncie, although the SBDC will retain a satellite presence in Richmond. But the strength of the network will ultimately flow from the commitment of community and regional partners whose experience and expertise can be of immeasurable benefit to today's Hoosier entrepreneurs.

Indiana is poised for growth. We have all the assets and resources necessary to be a leading innovation and entrepreneurial economy nationally and globally. But that greatness will come not from government, and not from a temporary initiative. It will be the result of strategically-directed daily actions of talented and committed Hoosiers who believe in an entrepreneurial culture and an entrepreneurial future for Indiana's economy.

Jeff Heinzmann is State Director for the Indiana Small Business Development Center Network, a cooperative effort funded in part through an agreement with the U.S. Small Business Administration, the Indiana Economic Development Corporation and the private sector. As state director, he is changed with oversight of Indiana's 11 regional Small Business Development Centers (SBDCs), hosted by various educational and economic-development enterprises. Indiana's SBDCs are designed to assist and encourage growth and development of Indiana-based small businesses and start-up companies. A graduate of Northwestern University and the Indiana University School of Law, Heinzmann has spent 14 years as an attorney serving small businesses and government, most recently as Deputy Auditor and Counsel for the State of Indiana, where his work included legislative affairs, media relations and management of the State of Indiana Public Employees' Deferred Compensation Plan. He lives in Fishers with his wife and daughter. All opinions, conclusions or recommendations expressed are those of the author and do not necessarily reflect the views of the SBA.

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